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FINANCIAL TIMES

Start the week with...

China

Business eyes a sporting revolution

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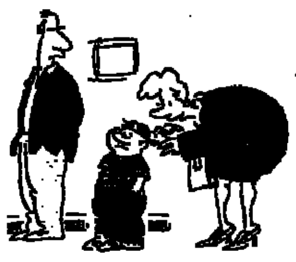

Advertising

The growing consumer power of children

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Italy

Close to achieving a virtuous circle

Today's survey, Separate section

World Business Newspaper http://www.FT.com MONDAY JULY 21 1997

● The eleventh part of our 12-part series, FT Mastering Finance, appears today. Topics include: Private equity finance and the regulation of international financial markets.

Siemens warning over losses in Indian operations

German industrial group Siemens said that its Indian operations would show a loss this year because of increasing problems in one of its biggest Asian markets. It blamed India's economic slowdown and rising interest rates. Page 17

BT and MCI seek compromise: BT's chief executive Sir Peter Bonfield is flying to MCI's Washington headquarters to continue discussions over the future of BT's bid for the 80 per cent of the US carrier which it does not already own. Page 17

Taiwan and HK in WTO talks: Taiwan is opening talks with Hong Kong on Taipei's application to join the World Trade Organisation. The talks – the first such negotiations since Hong Kong reverted to China three weeks ago – are at a secret location in Tokyo. Page 4

Japanese debut for stock options: Individual stock options made their debut on Japan's two main stock exchanges on Friday, making it the third-largest stock options market in the world. Page 22

Leonard wins Open Championship: American Justin Leonard putted supremely for a six-under-par 65 to capture the British Open golf title by three strokes at Scotland's Royal Troon links. The 25-year-old former US amateur champion, became the youngest winner of the Open championship for 18 years with a 12-under-par total of 272. Swede Jesper Parnevik and Northern Irishman Darren Clarke finished joint second three strokes back.

Bangkok transit delay: Hopewell Holdings, the Hong Kong company behind a $3.2bn mass transit system for Bangkok, has warned that devaluation of the Thai baht has raised costs by 15 per cent and set back the December completion date. Page 16

Goldsmith successor named: Lord McAlpine, the former Tory party chairman, is to succeed Sir James Goldsmith as leader of the UK's Referendum Movement, which campaigned against further EU integration in the last general election. Sir James died aged 64 at his villa near Marbella in Spain. Obituary Page 3

UK companies may move to euro: UK companies may be forced to switch much of their billing and payment systems from sterling to euros in 1999, whether or not Britain joins European Monetary Union, according to the UK's Barclays Bank.Page 17

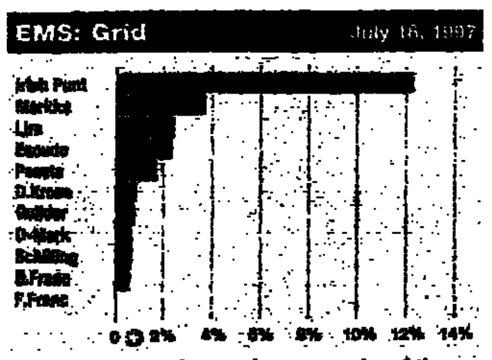
Billiton to come in at $7.8bn: Billiton shares are expected to be priced at about 225p, say analysts, valuing the mining and metals group being demerged from Gencor of South Africa at £4.7bn ($7.8bn). Billiton will be one of the 50 biggest groups listed on London's stock exchange. Page 17

Cheap and cheerful: The archetypal US five-and-dime store has passed on, but F.W. Woolworth's inflation-adjusted heirs such Los Angeles' 99 Cents Only chain as are alive and well in Main Street. Page 16

Mexican migrants found: Seven people were arrested in New York for keeping 62 deaf Mexicans in slave-like conditions and forcing them to peddle trinkets.

European Monetary System: The Irish punt spent part of the week perilously near the top of its 15 per cent fluctuation band within the ERM, dragged higher by the strong pound. But it later dropped as sterling lost steam, and ended the week only 12.29 per cent above its central rate against the EMS grid's weakest currency, the French franc. Currencies, Page 25; Euro billing, Page 17

EMS: Grid July 18, 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

Package expected to include substantial increase in tax for profitable companies

French renew attack on deficit

By David Owen and Samer Iskander in Paris

France's Socialist-led government is expected today to unveil about FFr30bn ($4.93bn) of new public deficit reduction measures in an effort to keep the country on course to join the planned European single currency.

The package, set to include a substantial increase in the tax burden imposed on profitable French companies, would be enough to cut 0.3-0.4 percentage points from the public deficit, expressed as a proportion of gross domestic product.

The French government will also indicate today whether this package will reduce the deficit enough to meet the Maastricht treaty's single currency convergence criteria of 3 per cent, when it publishes the results of an independent audit of public finances. Many economists believe it will show the deficit hitting between 3.5 and 3.7 per cent of GDP without additional measures.

If today's new measures are included, this would leave the government facing a 1997 deficit of around 3.2 to 3.3 per cent – down from over 4 per cent last year. Many economists expect Mr Lionel Jospin, the prime minister, to gamble on this being enough to keep economic and monetary union - single currency - on track.

Some think the overshoot will be lower. Mr Patrick Artus, chief economist at Caisse des Dépots et Consignations, a state-controlled financial institution, suggested the deficit figure could be 3.4 per cent, enough to put the government within range of the requirement with today's tax rises. "I think it will try to announce 3 per cent," he said.

Mr Jospin and close advisers were said to be putting the finishing touches to their budget proposals last night, with measures "changing virtually from one minute to the next".

The plan is likely to include a time-limited increase in corporation tax, possibly raising the effective rate to nearly 40 per cent, from 36.6 per cent at present, in 1997 and 1998.

Companies may also be hit by an increase in the rate of tax they pay on certain capital gains and by a possible rise in employers' pension contributions. One-off contributions from some state-owned companies may also be sought.

The new measures are expected to be debated and voted on at an extraordinary session of parliament in September.

It still seems possible that well-off households may be hit by the plan, in spite of the Socialists' campaign promise not to implement a new set of austerity measures in order to achieve the strict Maastricht deficit target.

Mr Christian Sautter, budget minister, said yesterday it was "probable" that very well-off households would be asked to give up a part of the tax cuts announced last year by Mr Alain Juppé, the Gaullist former prime minister. He said this would be "fair and goes in the direction of fiscal reform that we want to carry out".

Moment of truth, Page 15
Observer, Page 15

IRA ceasefire draws muted response

Blair appeals to Unionists to co-operate in negotiations

By John Kampfner in London and John Murray Brown in Dublin

Mr Tony Blair, the UK prime minister, will today appeal to Mr David Trimble, leader of the main Northern Ireland unionist party, not to walk out of multi-party talks on the province's future following yesterday's IRA ceasefire.

The official end to hostilities by the IRA at noon was greeted with few public displays of celebration – unlike 1994's ceasefire.

Unionists, who want Northern Ireland to remain part of Britain, feared the government had made unacceptable concessions to secure a renewed ceasefire by the IRA, which is fighting to unite the province with the Irish Republic.

They warned that unless Mr Blair provided assurances to Mr Trimble at a meeting in London today, they would vote against the conditions agreed by the British and Irish governments for the launch of a new phase in the multi-party talks, which is to include Sinn Féin, the IRA's political wing.

Senior UK officials said an international committee would begin to look at the critical issue of the decommissioning of paramilitary weapons before the full talks reconvened on September 15.

But the pledge appeared to do little to placate unionists, who suspect Sinn Féin may be allowed to determine a final constitutional settlement for Northern Ireland without the IRA first handing over a single weapon.

If Mr Trimble, leader of the Ulster Unionist party, refuses to endorse the proposals for the talks on the arms issue when they come to a vote on Wednesday, negotiations will be effectively dead.

British officials said Mr Blair had not changed the government's position on decommissioning. Arms would still have to be handed in at some point between September and the expected conclusion of negotiations in May 1998.

However, there was cautious confidence among UK officials that Mr Trimble could be persuaded to give Mr Blair the benefit of the doubt.

Ms Marjorie Mowlam, Northern Ireland secretary, is expected to meet Mr Gerry Adams, Sinn Féin president, within the next two weeks. Her officials will pave the way for the encounter in talks with Sinn Féin over the next few days.

Mr Blair's office said the prime minister would meet Mr Adams in the autumn at the earliest, provided that the multi-party talks resumed and Sinn Féin endorsed the six principles of non-violence drawn up by the talks chairman, former US senator George Mitchell.

But a report in the Dublin-based Sunday Tribune reinforced Unionist anxieties. The newspaper said the IRA would review its ceasefire in mid-November, and had told activists violence could resume if they were not happy with the progress of the talks.

Mr Adams dismissed the claims. But Mr Martin McGuinness, Sinn Féin's chief negotiator, refused to be

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Northern Irish mourners call for peace at a service for teenager Bernadette Martin, shot while in bed with her boyfriend Reuter

US looks at curbing flights in Boeing row

By Bruce Clark in Washington

Washington is considering restricting flights between the US and France if the European Commission rejects the proposed merger between Boeing and McDonnell Douglas, the US aircraft manufacturers.

Half a dozen US government agencies have prepared lists of retaliatory measures that could be implemented if Brussels disallows the merger and starts imposing sanctions – such as levying fines or impounding aircraft.

France is uniquely vulnerable because it is the only major European country with no formal arrangement governing flights to the US.

"We are crossing our fingers because we have a 1,000 per cent interest in reaching an accommodation," said one of the US officials considering what to do if the Commission disapproves the merger on Wednesday, as expected.

"The consequences of a lack of agreement could be too horrible to contemplate," said Mr Joel Johnson, vice-president of US Aerospace Industries Association.

Curbing flights between the

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Cambodian leader spurns Asean mediation efforts

By William Barnes in Bangkok

Mr Hun Sen, the Cambodian leader, has rejected attempts by the Association of South-East Asian Nations to broker a diplomatic solution to the crisis following this month's coup.

He told Asean foreign ministers not to interfere in Cambodia's internal affairs, an embarrassing rejection on the eve of the regional group's 30th anniversary summit this week, at which Cambodia was to have formally joined its ranks.

During a weekend of hectic diplomatic activity, Asean foreign ministers held talks first with Cambodia's ousted first prime minister, Prince Norodom Ranariddh, before travelling to Phnom Penh for talks with Mr Hun Sen, leader of the Cambodian Communist Party.

Mr Hun Sen, officially the second prime minister but now Cambodia's de facto ruler, rebuffed the Asean foreign ministers at a two-hour lunch in Phnom Penh on Saturday.

Afterwards, the foreign ministers made clear they had been unable to make any headway. Mr Ali Alatas, Indonesia's foreign minister, said: "We must respect" Mr Hun Sen's rejection.

Forced to reiterate Asean's tradition of non-interference in a country's internal affairs, he added: "We are not in the business of cleaning up the mess in other people's back yards."

One western diplomat in the Cambodian capital said yesterday: "They [Asean] do not seem to have applied the slightest pressure – so the reaction from a man who only respects power was entirely predictable."

Mr Hun Sen seized power two weeks ago, ousting Prince Ranariddh in a bloody coup. Asean responded by suspending Cambodia's entry into the group which, along with the entry of Laos and Burma, would have capped a triumphal Asean summit in Malaysia this week.

There were expectations in Phnom Penh yesterday that despite recent events, the Asean summit would still indicate that Cambodia – which already has Asean observer status – will be granted full membership this year.

In a sop to critics, Mr Hun Sen last week appointed Mr Ung Huot, a former foreign minister from Prince Ranariddh's Funcinpec party, as first prime minister.

However, the US, with the broad support of France and Australia, was not satisfied. It wants donor countries which prop up the Cambodian economy to demand that Funcinpec be given more power. But they have stopped short of insisting on the prince's restoration as first prime minister.

Other Asian powers such as Japan and China have indicated acceptance of Mr Hun Sen's position as Cambodia's leader.

Funcinpec was the victor in UN-supervised elections in 1993 but was forced to share power with Mr Hun Sen's Cambodian Communist party.

Diplomats say the weekend events show that Asean's "soft diplomacy" approach is a failure.

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Big gain from sale of stake in competitor

One-off boost for France Telecom

By David Owen in Paris

The 1997 profits of France Telecom, the state-owned telecommunications operator that may be partly privatised later this year, are set to be boosted by a FFr1.3bn ($210m) one-off item.

The company is to record a gain of about this amount on March's sale of a 7.75 per cent stake in Cofira, a subsidiary of Cegetel, its main competitor in the country's soon-to-be-liberalised telecoms market.

The sale, disclosed in a US filing made earlier this year in line with plans to trade France Telecom shares on the New York stock exchange, was to Générale des Eaux, Cegetel's largest shareholder.

France Telecom said the gain would be reflected in its 1997 financial statements. It expects to publish its first half 1997 results in September.

Trading in the company's shares was expected to start in Paris and New York on June 9 this year. The country's previous centre-right administration hoped to raise between FFr30bn and FFr50bn from the sale. However, the partial privatisation was put on ice after the Socialist party's unexpected general election victory.

The group reported net profits of just FFr2.1bn in 1996, against FFr9.2bn a year earlier, after a string of one-off items.

The US filing also revealed that Cegetel had filed a complaint against France Telecom with the European Commission for alleged abuse of its dominant position under the European Community treaty.

The allegations were said to relate principally to "certain aspects of France Telecom's tariff policy and, in particular, certain subscription packages".

A complaint from British Telecommunications is also outstanding with France's Competition Council relating to France Telecom's 1993 contract to provide data transmission services to Axa, the insurance group.

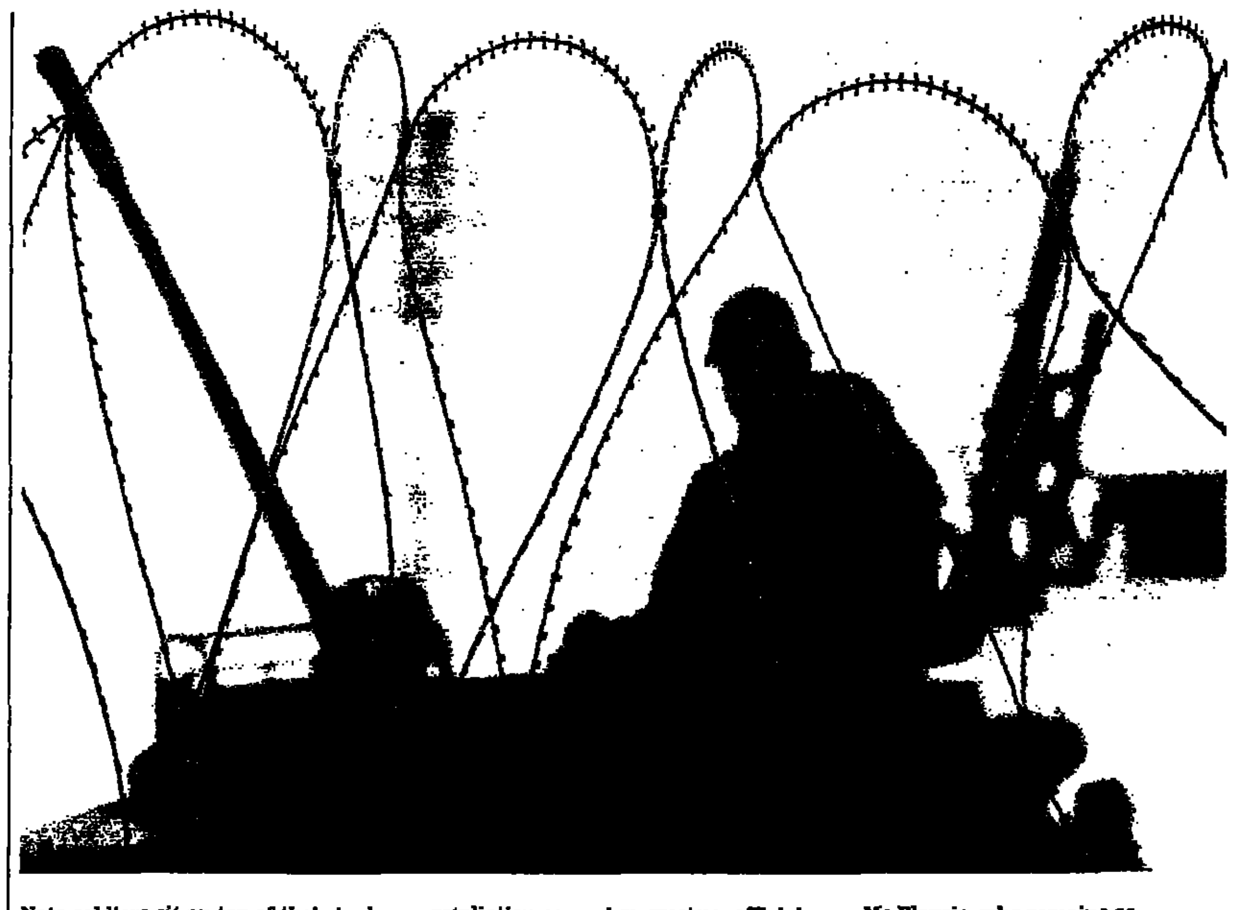
Last September, the council extended the action to similar contracts entered into with GAN, another French insurance company, and La Française des Jeux, the French national lottery organisation.

In theory, the US filing said, France Telecom might be fined up to 5 per cent of revenues, but the council had "never imposed such a maximum fine and France Telecom does not expect it to in this case". BT could also sue separately for damages.

The document said France Telecom owned properties with an aggregate net book value of approximately FFr42bn at December 31, 1996. It intended to dispose of between FFr3bn and FFr5bn worth of property between now and 2001, market conditions permitting.

The government last week appointed Mr Michel Delebarre, a former labour minister, to lead discussions on labour issues at the company. This was an apparent fulfilment of a campaign pledge by Mr Lionel Jospin, prime minister, to ask staff whether they supported an opening of its capital.

A finance ministry statement acknowledged that "adaptations" might be necessary to help the company's "European and international development".



Nato soldiers sit on top of their tank yesterday behind razor wire in their Sarajevo base. Soldiers and international observers have been the target of a series of minor retaliatory explosions over the past week as Bosnian Serb hardliners have stepped up their retaliation campaign over the crackdown on indicted war criminals, Reuter reports from Pale.

US diplomats issued a stern warning to the Serb leadership in talks on Saturday, demanding a halt to the retaliation campaign, western officials said.

The members of the hardline ruling Serb Democratic party (SDS) have also expelled President Biljana Plavsic and demanded she step down from office, a party official said yesterday. They have accused Ms Plavsic of being too co-operative with international mediators who want to arrest indicted war criminal Radovan Karadzic and other indicted Serbs for trial by the UN war crimes tribunal.

Ms Plavsic, who remains as president unless parliament calls a referendum on her removal, dissolved the parliament and called for elections on September 1.

The vote to kick Ms Plavsic out of the party followed outspoken attacks on Mr Karadzic at rallies and her comments in an interview threatening to arrest him and his allies for rampant corruption. The SDS said that Ms Plavsic had "deserted" the party that had nominated her.

Tighter EU beef controls expected

By Maggie Urry

European farm ministers appear likely to approve a Commission proposal to tighten controls on the processing of beef to eliminate "mad cow" disease, or BSE, when they meet tomorrow.

If they do not, however, Mr Jack Cunningham, UK agriculture minister, will carry out his threat to block imports of beef into the UK which do not meet British standards.

Mr Cunningham issued an ultimatum to Europe early last month to crack down on the removal of risk materials from beef – such as the spinal cord and brain which are thought to carry BSE – by tomorrow's meeting.

Mr Cunningham's threat, which appeared to alienate some in Europe, had come shortly after Mr Franz Fischler, EU agriculture commissioner, had won backing from the Commission to insist on a ban on specified risk materials in all food for humans and animals.

A similar proposal had been rejected by the agriculture council in December, but Mr Fischler said that inspections since then had shown lax controls in some EU countries.

The EU's standing veterinary committee, which has a representative of each member state, rejected the proposals last Wednesday by 8 to 7 votes. However, under EU rules, the Commission can still put the plan to the council, where it would take 8 votes against to block it.

The countries in favour of the proposal are the UK, Ireland, France, Sweden, Luxembourg – all of which voted in favour in December – the Netherlands and Spain.

Commission officials expect at least one country which voted against in the veterinary committee to switch sides in the council meeting. Belgium is considered most likely to change its vote.

Member states have argued they need not remove risk material if their herds are free of BSE. But the official said that since the inspection reports had shown inadequate controls it was harder for countries to use that argument.

Brussels commissioners place fingers on trigger

Emma Tucker on the EU stance over the Boeing-McDonnell Douglas merger

In two days' time, short of a breakthrough, the most momentous event in the history of European competition law will take place in Brussels.

The European Commission is set to ban the merger between Boeing and McDonnell Douglas, the US aircraft manufacturers, and the decision is likely to trigger an all-out transatlantic trade war. The US is already threatening retaliation against any punitive action taken by Brussels against Boeing.

It may seem extraordinary that the Commission, the executive arm of the European Union, should be able to outlaw a merger between two distinctly US companies, especially when this has already been approved without condition by the Federal Trade Commission in the US. But under the 1990 Merger Regulation, a central part of EU competition law, the Commission has the power to investigate big mergers, even where the companies involved are not based in Europe.

To trigger an investigation by Brussels, the merging companies must have combined global turnover of more than Ecu5bn ($5.6bn) as well as turnover in the EU's single market of at least Ecu250m.

Once a case has been notified, the Commission has one month either to clear it, or to extend the probe by a further four months, as in this case. If it then judges that a merger will damage competition in the EU, the usual course for the merging companies is to produce remedies to their deal which satisfy the Commission's objections.

Few mergers have ever been blocked – nine out of hundred considered in seven years. But in the case of Boeing and McDonnell Douglas, the Commission contends that offers so far made by Boeing do not satisfy its competition concerns.

What has made the case so remarkable has been the nature of the industry involved, and the suspicion that Brussels – under intense pressure from national EU governments – is acting to protect the interests of Airbus Industrie, the European consortium which is Boeing's only serious rival.

Furthermore, although this is not the first time the Commission has investigated mergers between US companies, previous cases have involved companies with extensive European operations.

One such probe was into the merger between Kimberly Clark, the US consumer products group, and Scott Paper, the Canadian tissue maker, which satisfied Brussels partly by selling some of its European manufacturing operations. In contrast Boeing merely sells into Europe.

Mr Karel Van Miert, the competition commissioner who has led the investigation, fiercely rejects the charge that the investigation has been a political one, arguing that it has been conducted on pure competition grounds.

Right from the start he outlined three critical concerns.

The first was that the merger would extend Boeing's already dominant position in the field of civilian aircraft to the point where it controlled 84 per cent of the world's currently operating jet aircraft.

Second was that Boeing would get access via McDonnell Douglas's defence operations to government-funded research and development that it would be able to exploit for civilian business.

Third, Mr Van Miert was concerned that the 20-year single-supplier deals signed by Boeing between American, Delta and Continental Airlines in the US close down too large a chunk of the market to Airbus for too long a period.

According to sources in the Commission, substantial progress has been made on the first two objections and it is on the question of the exclusive supply deals that negotiations have snagged.

There are many people in Brussels who believe a deal can still be struck before Wednesday. In spite of Commission protestations that internal procedures mean it is too late for an offer from Boeing, few doubt that remedies entirely satisfying Brussels' concerns would be turned down.

If there is no last-minute offer from Boeing, or a climbdown by the Commission, the commissioners will carry out their threat to outlaw the merger in Europe, on a recommendation from Mr Van Miert.

Boeing must then decide whether to ignore the Commission and press ahead with the tie-up anyway – its shareholders are due to vote on the merger on Friday – or to come forward with something new.

If the merger goes ahead, Brussels can fine the company up to 10 per cent of its global revenue – a fine estimated at more than $4bn – and make life difficult for European companies signing contracts with Boeing.

Boeing's most likely course of action would be to request an injunction from the European Court of Justice in Luxembourg to suspend the punitive effects of the Commission decision, pending a full hearing in which it would argue that its case was unfairly treated.

President Bill Clinton has also warned that he might raise the stakes by referring any EU-imposed curbs to the World Trade Organisation.

Whatever the outcome on Wednesday, the Boeing-McDonnell Douglas merger has raised questions about the scope of EU competition rules and whether it can be right that a European authority should be allowed to torpedo a merger between two entirely non-European companies.

Plea to Basque extremists to learn from peace moves in Northern Ireland

Eta urged by moderates to call ceasefire

By Tom Burns in Madrid

Moderate Basque nationalists have called on the Eta separatist movement to learn from the peace moves in Northern Ireland and implement a ceasefire over a "sustained period".

Mr Iñaki Anasagasti of the mainstream Basque Nationalist party (PNV) urged the Basque gunmen to follow the Northern Ireland lead because this would "allow us to do things".

The Irish Republican Army has announced a ceasefire in its terror campaign against the British government and loyalist targets, a decision that may lead to substantive negotiations involving Sinn Féin, political wing of the IRA.

Developments in Northern Ireland, which are closely monitored in the Basque country, have coincided with an unprecedented mood of revulsion following Eta's murder of Mr Miguel Angel Blanco, a town councillor, a week ago. The killing has put Eta and Herri Batasuna, Eta's political wing, on the defensive.

The linkage between a halt to violence and a future negotiating process was echoed by Mr José Mari Atutxa, an influential member of the PNV hierarchy who has responsibility for security issues in the autonomous Basque government. He said the hard-line nationalists "now have an enormous opportunity to give peace and hope a chance".

Herri Batasuna spokesman Floren Aoiz: unlikely to heed ceasefire call Reuter

Mr Atutxa's department in the Basque government banned Herri Batasuna from holding a march on Saturday in San Sebastian, one of its strongholds, after the ban was earlier upheld by a Basque court.

In the past week, an all-party alliance in the Basque country has emerged to isolate Herri Batasuna politically, prompting speculation of a turning point in the 30-year Basque struggle.

A poll of public opinion in the Basque country, published yesterday by the Madrid newspaper El Mundo, showed a significant fall in voter support for Herri Batasuna and majority backing for tougher measures against Eta's supporters.

Even the traditionally hard-line youth wing of Herri Batasuna, which regularly riots at weekends in support of Eta, has been quiet in the past few days.

Basque leaders said it was not realistic to expect Herri Batasuna to call on Eta to implement a ceasefire. The Basque hard-line group is a creature of Eta's high command and takes its orders from the gunmen.

A Basque peace process modelled on that of Northern Ireland is also unlikely to emerge in the absence of a negotiating framework, and because Herri Batasuna lacks political autonomy.

Bonn to seek reduction in EU contributions

By Peter Norman in Bonn

Germany yesterday served notice that it would seek a sharp reduction in its payments to the European Union following last week's Brussels Commission proposals to retain the existing contribution structure while pressing ahead with the EU's eastward expansion.

Mr Klaus Kinkel, Germany's foreign minister, said the Bonn government, together with both houses of parliament, would press for a "more just sharing of burdens" among the EU member states. Germany could not continue to pay "more than half" the net contributions to the EU while its share of the union's gross domestic product was only 25 per cent, the minister told Welt am Sonntag, a Sunday newspaper.

Mr Edmund Stoiber, prime minister of Bavaria and a leading figure in the Bundesrat, the second chamber of parliament representing the states, said the EU must have a fairer financing structure before the former communist states of eastern and central Europe joined the union.

In net terms, Germany paid more to the EU than all other members despite a middle ranking in terms of wealth, he said. Writing in Bild am Sonntag, a Sunday tabloid newspaper, Mr Stoiber called for "concrete" negotiations in 1998 leading to a formula for contributions linked to the "true wealth" of member states which would "ease the burden of the German taxpayer by a good DM10bn ($5.5bn) a year".

"German net payments of DM22bn annually amount to DM271 per head per year," the Bavarian leader said. "If the EU commission has its way, this unjust division of burdens will be continued beyond 2000. We will not accept that."

Mr Stoiber complained that Luxembourg and Denmark, which counted as the wealthiest EU members according to GDP per head, were net recipients from the EU budget.

The Bonn finance ministry has already worked out a plan to cut Germany's EU budget burden in which member states' net contributions would be capped at certain percentages of GDP which would reflect different levels of national wealth.

In next year's negotiations, the ministry wants to force net beneficiaries such as Luxembourg, Belgium and Denmark to help finance the EU as well as raise the contributions of France, the Netherlands and Britain. A prime target of German negotiators will be Britain's EU budget rebate, which was won in the 1980s after furious arguments between Lady Thatcher, then prime minister, and other EU leaders.

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Paris decision leaves TMM chief counting his blessings

By Samer Iskandar in Paris

It is a win-win situation for Mr Thierry Breton, chairman of Thomson Multimedia (TMM).

On the one hand, the government's decision last week to retain control of TMM – the consumer electronics arm of Thomson SA, the state-owned company which also holds 58 per cent of Thomson-CSF, the defence electronics group – means the company can count on the FFr10.87bn ($1.8bn) capital injection promised by the previous government and awaiting a green light from the European Commission. Mr Breton said he expected to receive the funds "during the summer".

On the other hand, the government did not rule out strategic alliances, paving the way for Mr Breton to seek industrial partners.

"We want to have important links with different companies," Mr Breton said over the weekend in an interview with the French newspaper *Le Monde*. "We have already started this. I want to develop it."

Mr Breton believes TMM can survive on its own in key sectors where it is a market leader. "The group can only develop in sectors where it is number one or number two worldwide... [such as] making television tubes, where we are the world's largest supplier for medium and large sized screens," he said.

But he also said that, looking five years ahead, TMM would have to rely on alliances to finance research and development. "In television, video and audio it is difficult to make money," he said.

On Friday, the Ministry of Finance and Industry said: "Thomson Multimedia's financial situation [with FFr18bn of debts] requires support from its shareholder [the state]... the government has decided that the company would remain publicly-owned... strategic partnerships justified on industrial grounds can be undertaken in the future."

It also confirmed that the privatisation of the insurance group GAN and its banking subsidiary CIC would proceed as planned by the previous government.

GAN will receive aid of FFr20bn as part of the privatisation process, which the government hopes will lead to "integration in a wider group capable of offering [GAN-CIC] the opportunity to develop... [while] limiting the cost of the state's intervention".

The list of potential acquirers is long. In addition to France's large banks, such as Banque Nationale de Paris and Société Générale, suitors include Allianz, the German insurance company and a consortium formed by French insurer MAAF and the Swiss group Zurich.

Delay over euro 'would bring threat of damages'

By Peter Norman

Postponing the introduction of the euro beyond the planned start of 1999 would be a clear breach of the 1992 Maastricht treaty for economic and monetary union and have costly legal consequences, the commissioner responsible for launching Europe's single currency has warned.

"If the EU heads of government decide that we begin in 2001 or 2002, a flood of damage claims will break over us," predicted Mr Yves-Thibault de Silguy, European Union commissioner responsible for monetary affairs.

"All banks, all companies that have put their faith in the [Maastricht] treaty could demand reimbursement of their costs of preparation" for Emu, he told Der Spiegel, the German news magazine.

Interviewed in today's issue, Mr de Silguy insisted that the Maastricht treaty did not allow Emu to be delayed beyond January 1 1999. He warned that the euro would be "dead" if EU leaders decided on a date after 1999, because that would require the treaty to be changed and ratified again by the parliaments of the member states.

However, Mr de Silguy's fears of a legal action against the EU surprised diplomats in Bonn and one of Germany's leading banks. While Mr de Silguy said the Commission's legal services backed his view, German diplomats argued that companies would be on weak ground suing for damages in the event of Emu delay because the Maastricht treaty made clear that the single currency was conditional on member states meeting the entry criteria.

Mr Dennis Phillips, a spokesman for Commerzbank in Frankfurt, said he was "certain the banks would not file damage claims against the EU" in the event of delay. Banks such as Commerzbank, which was spending DM150m ($83m) preparing for the euro, had to adapt their software and computer systems for Emu whether it came in 1999 or 2002, he said.

NEWS: INTERNATIONAL

Corporate buccaneer with taste for political drama

OBITUARY: SIR JAMES GOLDSMITH

Sir James Goldsmith, who has died at the age of 64, was a brilliant corporate buccaneer who used his substantial fortune to pursue an increasingly quixotic political career. Most recently he will be remembered for his part in the British general election in May when, having founded (and funded) the Referendum party, he not only stood himself but backed nearly 550 other candidates. The sole aim, he said, was to ensure a referendum on British membership of the European Union.

Nearly everything he did had an element of drama, though sometimes with a comic touch. James Michael Goldsmith was born of an Anglo-French marriage in Paris on 26 February 1933. His father Frank came from an old Frankfurt banking family with Rothschild connections. He moved to England in 1895, became Conservative MP for the East Anglian constituency of Stowmarket, served in the first world war, and then switched to France where he became a successful grand hotelier on a European scale. His mother, Marcelle Mouiller, came from the Auvergne.

The family spent much of the second world war in the Bahamas and Canada before arriving in England in 1944. The young Goldsmith went to Eton soon afterwards, but although in later life he was to show a remarkable memory and a talent for numbers, there were no signs then of academic interest. There were already stories of his winning rather a lot of money at Lewes races and he left Eton at 16, tending to say afterwards that he had always been an anti-establishment figure.

National service soon followed, as a lieutenant in the Royal Artillery. Then came a spectacular elopement to Gretna Green with Isabel Patino of the Bolivian tin family. She died tragically within a few months and Goldsmith threw himself into work. His first venture was a small pharmaceuticals business in France. It expanded so fast it almost went bust: he said he was saved by a French bank strike which allowed him to get out in the nick of time. He moved to Britain, making drugs under licence and selling them aggressively.

In 1960 he set up house in London's Regent's Park. In partnership with an Iraqi, Selim Zilka, he began to create what grew into the retail chain Mothercare. A couple of years later, in a move that became typical of his career, he sold out, the story going that the deal was fixed over a game of backgammon. He had a habit of talking the language of the casino; when he moved anywhere he was "moving his chips".

Goldsmith returned to Paris and made money from slimming products. Yet he seldom took his eyes off London where the 1960s takeover boom was beginning to get under way. He pulled together a collection of confectionery companies; but by 1967 his main company, Cavenham – named after the family estate in Suffolk – was in a serious financial state and it took a complex deal with a French associate to save it. He never looked back, building a holding company in France, Générale Occidentale, as the apex of a pyramid of companies across Europe.

Goldsmith, like his friend Jim Slater, the most aggressive of the 1960s' takeover kings, was adept at corporate manipulation. In 1971 Cavenham made a successful £15m contested takeover bid for the Bovril food group. Cavenham became a star share and Goldsmith was fêted in the Sunday press. He soon snapped up Unilever's stake in Allied Suppliers, the big food retailing group best known for its Liptons grocery chain. A successful bid quickly followed.

In the inflationary climate of the early 1970s Goldsmith followed Slater into fringe banking through Anglo-Continental Investment and Finance, which was quoted in London, and the Paris-based Banque Occidentale pour l'Industrie et le Commerce. He also acquired a controlling stake in Argyle Securities, a property company that built up a big development programme with finance from the Post Office pension fund and others.

Goldsmith's greatest talent was for using the facilities of the stock market to enlarge his empire. While times were buoyant he successfully deployed overvalued paper to acquire assets on the cheap. When the stock market collapsed and the fringe banking crisis set in during in 1974 he was fortunate, first, in not having a substantial deposit base in his banking business. More importantly, he had solid businesses in the food industry. It was their ability to generate cash that saved him while others, including Jim Slater, foundered.

In 1975 when Slater, Walker Securities had to be rescued by the Bank of England, Goldsmith was asked to take over the chairmanship. He received a knighthood in Harold Wilson's resignation honours – the famous "lavender list". There was talk, too, of his acquiring The Observer newspaper, and later, possibly, Beaverbrook Newspapers.

He nonetheless succeeded in alienating much of the British financial establishment. Goldsmith's penchant for endlessly respinning the web of his Anglo-French corporate empire created endless conflicts of interest. Quoted companies within the empire lent money to each other, while their pension funds put money on deposit at his banks.

The more fundamental problem was that the evolution of the empire had left Goldsmith with a big stake in the master company, Générale Occidentale, but a much smaller one in Cavenham, the jewel in the crown. Much of his complex deal-making was designed to wrest back a larger share of Cavenham from outside investors. In reshuffling his empire to this end, Goldsmith used complexity to great effect as a financial weapon.

Générale Occidentale finally managed to buy out the remaining 49 per cent of Cavenham in 1977 amid controversy over the ungenerous terms of the deal. By this time Goldsmith's inability to handle criticism was becoming more conspicuous, as he brought an action for criminal libel against the satirical magazine Private Eye and performed explosively on BBC TV's Money Programme. At this stage of his career Goldsmith saw conspiracies and communists everywhere. Even The Economist magazine was accused of harbouring countless Marxists on its staff.

Meanwhile Goldsmith's tangled private life left him vulnerable to attack. In 1963 he had married his French secretary, Ginette Lery. He subsequently divorced her and married his mistress Lady Annabel Birley, the former wife of a school friend.

Goldsmith never made any secret of his bizarre family arrangements, with separate ménages in different parts of the world.

On the eve of Margaret Thatcher's premiership he boldly declared that Britain was finished. He founded the news magazine Now!, but it failed within two years amid heavy losses. The prospect of France under the Socialist President Fançois Mitterrand did not please him either, so he went to live in America, having liquidated most of his European assets, while holding on to the Grand Union food chain which Cavenham had acquired in the US in 1973.

Goldsmith found a takeover boom in the US even bigger than in Britain in the 1960s and immediately put his skills in financial engineering to work. The trick once again was to spot undervalued assets which could be acquired for paper, then turned into cash. Most of his resources went into Diamond International, an old-style timber business which had made a mess of diversification. It turned out to be an immensely profitable transaction, paving the way for other corporate raids.

The biggest was a shot at Goodyear Tire with a then stock market value of over $3bn. The raid was so unpopular that it was eventually repelled, but not without Goldsmith and his colleagues picking up around $100m in the process. This led to accusations of "greenmail", from which he vigorously defended himself by claiming that he never embarked on a deal in the hope of simply extracting money from the target company's shareholders.

In 1987, having exploited the leveraged buy-out mania to the hilt, he sold most of his assets. It was only a few weeks before the October crash and he made the cover of Time magazine under the heading "The Lucky Gambler". A few more flourishes followed back in Britain. He took a large stake in RHM, the UK food group, in 1989, and put together a consortium to launch an attack on BAT Industries, which never turned into a full bid.

It seemed by then Goldsmith was a changed man, more interested in saving the environment (his brother Edward is an ecologist) and stirring up the political scene than in making deals. The financier who built his fortune on a brilliant series of coups in the UK bull market of the early 1970s and the US takeover mania of the mid-1980s turned up as a French candidate for the European Parliament in 1994.

He stood for the loose grouping L'Autre Europe, opposed to the Maastricht Treaty on European Union and reform of the General Agreement on Tariffs and Trade. Since the voting is by proportional representation and Goldsmith was number two on the list, he was almost bound to be elected, which he was. Number three was Charles de Gaulle (grandson of the general), who also made it. But Goldsmith did not much like the parliament, which declined to take him very seriously, and his attendance was infrequent.

Possibly the success of the French campaign, in which L'Autre Europe won 14 per cent of the vote, went to his head. Thus he turned to Britain where his politics received much greater publicity. He never denied that he put up some £20m of his family foundation funds to back the candidates in his Referendum party. "Because I've made a lot of money," he said, "I'm considered an exotic figure. But who else but an exotic figure is going to stand up against 15 government establishments and say 'No'?" It seemed beside the point that by the time the election came all three main parties were committed to a referendum on Europe of one sort or another.

In the event the party's 547 candidates won only 2.6 per cent of the national vote between them, though Goldsmith himself may have contributed to the defeat of David Mellor, the former Conservative minister, in Putney. Certainly Mellor thought so, telling Goldsmith after the count to go back to Mexico, where he had extensive property.

Goldsmith undeniably had more money than political sense. As a businessman he enriched himself by shuffling assets rather than developing businesses. Yet for all his quixotic impulses he was a forceful and persuasive personality who wielded immense charm.

Above all, he was a gambler in everything he did. Public life will be less colourful without him.

John Plender

Sir James Goldsmith and Lady Annabel Birley, whom he subsequently married, during Goldsmith's libel action against Private Eye in 1976. Goldsmith launches Now! magazine in September 1979. Jacob Rothschild, the financier, left, and Kerry Packer, the Australian entrepreneur, flank Goldsmith in July 1989 after their consortium announced it was attempting a £13bn takeover of BAT Industries. Goldsmith heckles defeated Conservative candidate David Mellor in Putney after Mellor's defeat in the recent British general election

Competition advocates heartened by FCC agreement but still some way to go

Telecoms reform to go at snail's pace

By Richard Waters in New York

Advocates of open competition in the US telecommunications markets finally had something to cheer about at the weekend. But after the setbacks of the past year and a half – capped by a landmark legal decision on Friday – it hardly means that a competitive free-for-all is round the corner.

The good news came on Saturday, with a regulatory agreement that could accelerate the opening up of the local telephone market on much of the East Coast.

In return for allowing a much-delayed merger of Bell Atlantic and Nynex to go ahead, the Federal Communications Commission said it had extracted concessions which would force the two carriers to do more to stimulate competition in their market.

Customers of what will be the biggest of the five Baby Bells, with a base stretching from New England to North Carolina, may eventually see lower telephone rates as a result.

For the rest of the country, though, things look less rosy – to the disappointment of both the congressional promoters of last year's Telecommunications Act and of long-distance carriers like AT&T and MCI, which are trying to break into the local market.

The day before the FCC's deal with the two Bells, a Federal Appeals Court in St Louis pulled out the central plank of the Commission's effort to deregulate the $100bn local markets.

According to the court, the agency was wrong last summer to advance national pricing rules for the terms on which local and long-distance carriers link their networks.

It would take years and tens of billions of dollars for rivals to the Bells to build their own local networks, so their ability to use the wires and switches already in place is the only realistic route to competition.

The Bells, though – led by GTE, another local telephone company which was never part of the Bell system – have prevailed in their argument that the Act leaves it to individual states, not the Federal regulators, to set the prices at which they must sell access to their networks.

Such an outcome seemed likely when the appeals court first put a stay on the national price rules last October, and few in the industry expect the FCC's appeal to the Supreme Court to change this picture.

On the face of it, this is undiluted bad news for the long distance carriers. Without a uniform regulatory structure, "they will have to go to 50 different [state-level] referees to argue their case," says Mr David Roddy, telecommunications economist at Deloitte & Touche.

As a result, deregulation will continue to move forward at a snail's pace. MCI, for one, has already sunk $1bn into efforts to compete in local markets: earlier this month it provoked an outcry among shareholders of British Telecom, with which it plans to merge, when it said the delays that have held back competition in local calling would cost it $800m this year, and perhaps more in 1998.

But while events have gone against the long-distance companies, there is an element of regulatory gamesmanship at work. Indeed, news of MCI's predicted losses, accompanied by a rhetorical attack on the supposed anti-competitive behaviour of the Bells, has been widely seen in the US as a ploy to gain the sympathy of regulators – something that would prove counter-productive if it served to dent the prospects of a BT merger.

The Baby Bells themselves maintain that the long-distance companies do not want competition in local calling to develop as quickly as they claim to: under the Act, the Bells will be able to strike back into the long-distance market as soon as the FCC decides that there is real competition for local calls. The core long-distance businesses of both MCI and AT&T have proved surprisingly vulnerable to attack from other competitors over the past year, and the Bells – with their strong local brand names and massive customer bases – would prove the toughest competitors of all.

Also, the regulatory tide of events has not been going entirely against the long-distance companies. Most state regulators have already proposed pricing systems which bear close resemblance to the one developed by the FCC.

And the appeals court last week left in place important elements of the FCC's national regulations that should help the attack on the local markets. The Bell companies, for instance, will still be forced to give would-be competitors access to individual parts of their networks, including the operating systems on which they run, at preferential rates.

There is one other benefit from Friday's decision. By making it less likely that the FCC's national pricing structure will eventually prevail, the judgment will throw the spotlight on how well competition is developing within the existing rules – and whether, as rivals claim, the Bells are deliberately dragging their feet in building the technology needed to allow competitors to use their networks.

"The keys to compliance with the law are in the hands of the local monopolies," said Mr Mark Rosenblum, vice-president at AT&T.

The FCC, eager to get things moving, set up a task force last week to review allegations of foot-dragging from the Bells. This suggests that, if competition is to come, it will be through inch-by-inch victories over anti-trust questions, rather than by the waving of the FCC's magic wand.

Taiwan looks to HK over WTO access

By Laura Tyson in Taipei and John Ridding in Hong Kong

Taiwan today opens talks with Hong Kong on the island's application to join the World Trade Organisation, in the first such negotiations since Hong Kong reverted to China three weeks ago.

Underscoring sensitive issues on both the official and unofficial agenda, the two-day talks are being held in an undisclosed location in Tokyo to minimise media scrutiny. This is the sixth round of WTO entry talks between Taiwan and Hong Kong. The last round was held in December 1996.

Hong Kong officials insisted that the change in sovereignty made no difference to talks on Taiwan's accession to the WTO. "We support the membership by all trading partners of the WTO, and Taiwan is our fourth largest," said a spokesman.

But despite Hong Kong's stance that it maintains a trade policy independent of Beijing, as a practical matter the British handover forces Taipei into more interaction with its long-time nemesis, China.

Beijing views Taiwan as a renegade Chinese province eventually to be brought under Chinese control, and tries to prevent Taiwan from engaging in anything that smacks of foreign relations. Taipei and Beijing have been in a state of confrontation since 1949, when the Nationalists lost China's civil war and fled to Taiwan.

Taipei curbs the entry of Chinese capital, goods and people. But Taiwan is bracing itself for an expected demand from Hong Kong to lift longstanding curbs on China-backed investments on the island, as a condition of WTO membership.

For Hong Kong the issues centre on market access for both goods and services – particularly in banking and insurance. Hong Kong is pushing for a reduction in tariffs on a broad range of goods, including textiles.

The issue of easing market access to Chinese-invested companies is officially not on the agenda in the talks. But recent articles in Taiwanese newspapers have quoted unnamed trade officials as saying it was "inevitable" barriers would ultimately be scrapped. An official at Taiwan's Board of Foreign Trade would only say: "This is an extremely sensitive political question."

Under current Taiwan rules, the combined Chinese shareholdings of companies investing in Taiwan may not exceed 20 per cent. Such concerns may invest in Taiwan as long as they are based in a "third territory" such as Hong Kong. Hong Kong carriers Cathay Pacific and Dragon Air have benefited from a loose interpretation of the law, as has Air Macau, which is 51 per cent owned by Chinese interests. An official at the cabinet-level Mainland Affairs Council, which is charged with formulating Taiwan's policies toward China, Hong Kong and Macao, said the council was studying the issue of raising or lifting the limit.

Hong Kong is one of seven WTO members with which Taiwan has yet to conclude bilateral WTO-entry negotiations. Others include the US, with which Taiwan recently completed a fourth round of talks since the beginning of this year.

Taiwan is nearing completion of its bilateral WTO entry talks with major trading partners, but outstanding issues remain, especially with the US, whose support is critical. US officials said after talks last week the two sides had held "productive and useful" discussions on greater market access for insurance companies and agricultural products; concerns over medical equipment and pharmaceutical products pricing systems and enforcement issues concerning intellectual property rights.

The US raised the complaints of US companies including Nintendo, the games maker; Colgate-Palmolive, a manufacturing concern; Blue Cross/Blue Shield, the medical insurance concern; and PBM, a medical equipment supplier.

Business Travel: Taipei, Page 12

An elderly woman (above) from a farming village on the outskirts of Hanoi casts her vote yesterday as Vietnam went to the polls for an enlarged 450-seat National Assembly. Officials said turnout levels were at 100 per cent in many areas hours before voting closed, Reuter reports from Hanoi.

As usual with elections in Vietnam – a Communist state where only one party is permitted by law – little was left to chance. All 663 candidates have been officially approved and many residents, such as those in Hanoi, woke to the sound of stirring music from the city-wide megaphone network and messages instructing them on how to fulfil their civic duties.

Results are not expected to be known before Wednesday. Picture: Reuter

US eyes Caspian role in post-Soviet power play

By Bruce Clark in Washington

Flashman, the unscrupulous hero of Victorian Britain's imperial adventures in Afghanistan, will resurface in the life of another great power today when the US government makes an important policy statement on the Caspian region.

Mr Strobe Talbott, deputy secretary of state, will lay out US concerns for the independence of the ex-Soviet republics in a speech entitled "Farewell to Flashman: American policy in the Caucasus and Central Asia".

But the rapidly growing US interest in the former Soviet south, underlined by a series of high-profile visits from regional leaders, reflects more than a taste for light historical fiction.

Mr Nicholas Burns, State Department spokesman, has spelled out one reason why Mr Eduard Shevardnadze, is getting a red-carpet welcome on his first US visit as Georgia's elected president. "The Caspian [energy] reserves, next to the Persian Gulf reserves, are probably the greatest in the world," he said. This made the land-locked sea "very important" for both the US and Europe, and a promising area for US investment in extraction and transport of oil.

President Bill Clinton is understood to have told Mr Shevardnadze he welcomed Georgia's role as one of the conduits – along with Chechnya and the Russian Black Sea region – for initial Caspian output, starting this year. In an hour-long meeting with the former Soviet foreign minister, Mr Clinton backed the idea that a large Caspian pipeline, whose route will soon be decided, should pass through Georgia on its way to Turkey.

US officials have also made it clear to Mr Shevardnadze that if oil does flow in large quantities through Georgia some of it should be shipped to ports in Ukraine. Such shipments would make use of an oil terminal now under construction on the Georgian coast.

Mr Shevardnadze, who will be followed to Washington by leaders of neighbouring Azerbaijan and Armenia, got a promise of greater US help in settling the conflict in Abkhazia, to the north of the proposed pipeline route.

The Georgian leader goes to the UN today to press his case for broader international participation, and a changed mandate, for the Russian peacekeeping force, whose mandate expires on July 31. In a blunt assertion that Moscow's influence in the region is waning, he said: "Russia has its own problems, among them the Chechen situation, so it will find it impossible to resolve this matter unilaterally."

Islamist leader in plea to west over Algeria

By Roula Khalaf in London

Defying an interior ministry order not to speak to the press, Mr Abassi Madani, Algeria's recently released Islamist leader, has urged western nations not to interfere in the country's five-year conflict and make of Islam an enemy.

Speaking to the FT by telephone from his father's home in Algiers at the weekend, Mr Madani, the historical head of the now banned Islamic Salvation Front (FIS), appealed to the west's conscience to "help Algerians talk to each other and leave them to solve their own problems".

Mr Madani asked western countries, whose debt rescheduling and support in the International Monetary Fund have been useful to Algiers, "not to consider Islam as the new enemy in a new war.

"We have had enough wars and he who is wise does not look for enemies but for friends. Humanity is in need of co-operation, so let us leave behind religious fanaticism and look for common interests."

Mr Madani was released last Tuesday, five years into a 12-year sentence for undermining state security. His release raised hopes of a possible compromise with the government to help bring an end to Algeria's bloody conflict, which erupted in 1992 following the cancellation of elections the FIS was about to win.

Although Mr Madani insists that no conditions were attached to his release, Algeria's interior ministry on Friday issued a stern statement warning Mr Madani not to engage in political activity or make statements to the press as this constituted a violation of the terms of his parole.

Mr Madani's statements, however, have been vague and have deliberately avoided direct attacks on the government. Instead, he has indirectly called for negotiations and pledged he will do all in his power to bring an end to the violence.

But what may have annoyed the authorities is that he has so far failed to respond to their gesture by making a clear and unequivocal call for an end to violence, and that his interviews on French television last week were beamed by satellite to homes in Algeria.

Asked if he believes his release points to a new government willingness to solve Algeria's crisis through negotiations, Mr Madani said he saw it as "an expression of goodwill, and progress happens through goodwill". He added in a clear reference to the government: "Is there anyone with a minimum of decency and realism who accepts to see Algeria in this state of blood? We need to co-operate." In response to whether he would call for a truce, all he would say was: "Algeria is ready to surprise you with good news."

Slowdown in rush to invest in China

By Tony Walker in Beijing

Newly committed foreign investment in China in the first six months of 1997 was half that of the same period last year, at $23.6bn, indicating the rush to invest in the mid-1990s is winding down.

But Chinese officials played down suggestions that foreign investor interest was waning, saying that a dip in new investment was part of a normal ebb and flow. "It really should be seen as a normal thing," said Mr Zhang Shangtang, vice president of the China Association of Enterprises with Foreign Investment.

Mr Zhang attributed the apparent slowdown to comparison with "abnormal growth" of foreign investment in the first half of 1996, when investors rushed to beat an April 1 deadline phasing out tariff exemptions on capital equipment imports.

"It is not feasible for China always to run on the fast track after being the world's second largest investment target for four consecutive years," said Mr Zhang.

China is sensitive to indications investor interest may be slackening. Utilised foreign investment, which totals about $200bn, underpins the country's ambitious reform effort.

Newly commited foreign investment at $23.3bn was down 48.7 per cent, according to the Ministry of Foreign Trade and Economic Co-operation (Moftec). Actual investment at $20.7bn was up 5.5 per cent.

Mr Zhang said a continuing credit squeeze initiated in 1993 to calm an overheating economy was partly responsible for the investment slowdown, but macro-economic controls had led to an improvement in the "quality" of investment.

Moftec reported China approved 9,763 foreign-funded enterprises in the six months to June, down 30.5 per cent from last year. But per project investment was $2.12m, compared with $1.7m in 1996.

Actual investment is expected to total about $30bn-$35bn this year, down from $40bn last year. China has accounted for about one-third of investment flows to developing countries in the past decade.

Mr Zhang said investors should target "non-industrial" sectors such as real estate, services and infrastructure.

China's exports, meanwhile, continued to surge, with the trade surplus reaching $17.8bn at the end of June, compared with $12.2bn for the whole of 1996.

Mr Li Jian, a researcher at the International Trade Research Institute, said the strong export performance was partly caused by the credit squeeze which had depressed domestic demand.

He warned that a bulging trade surplus, sluggish imports and strengthening foreign exchange reserves could lead to a rise in the currency – the yuan, or renminbi – harming China's international competitiveness.

INTERNATIONAL NEWS DIGEST

Palestinian police arrested

Palestinian security officials probing Israeli charges that Palestinian police planned attacks against Israelis, yesterday said they had arrested four of their own policemen. The move helped to ease tensions as negotiators tried to jump-start stalled peace talks.

Mr Saadi el-Naji, the Palestinian brigadier general heading the investigation, said two officers were among those arrested. Israel has also arrested four Palestinian policemen for allegedly planning attacks against Israeli West Bank settlers in violation of peace accords. The Palestinian Authority has rejected the accusations, but promised to investigate.

Meanwhile, Mr David Levy, Israel's foreign minister, yesterday met Mr Nabil Sha'ath, Palestinian minister of planning and senior negotiator, in an attempt to break the deadlock in peace talks.

The session was brokered by Mr Miguel Moratinos, the EU's Middle East envoy, who is trying to arrange a meeting between Mr Levy and Mr Yassir Arafat, the Palestinian president, in Brussels this week at a gathering of 15 EU foreign ministers. *Avi Machlis, Jerusalem*

● A Jordanian military court sentenced Mr Ahmed Daqamsa, a Jordanian soldier, to life imprisonment at the weekend for killing seven Israeli schoolgirls on an outing to a site on the Israeli-Jordanian border in March.

■ POLISARIO FRONT

Progress in Sahara talks

Mr James Baker, United Nations special envoy to the Western Sahara, said in London yesterday that Morocco and the Polisario Front had agreed to a compromise proposal on one of the thorniest issues blocking implementation of a UN-sponsored referendum to decide the future of the former Spanish colony. But the former US secretary of state would not put odds on the chances for success of his mediation, insisting that other problems remained to be resolved.

The compromise, reached in the second round of talks between Morocco and the Polisario, the movement fighting for the independence of the Sahara, covers the central dispute over the identification process of people eligible to vote in the referendum. *Roula Khalaf, London*

■ KILLINGS IN SRI LANKA

Politician among six dead

A parliamentary deputy of the United National party (UNP), Sri Lanka's main opposition party, and five others were killed yesterday in an attack by gunmen near the town of Trincomalee town, according to police.

Police said Mr Mohammed Moharoof's vehicle was attacked on a stretch of road between Trincomalee and the nearby beach resort of Nilaveli. The dead were said to include the UNP politician's driver, his bodyguard, a colleague, a principal of a local Moslem school and the driver's four-year-old son.

Police blamed the Liberation Tigers of Tamil Eelam (LTTE) rebels – who are fighting a 13-year-old war for an independent homeland for minority Tamils in Sri Lanka's north and east – for the killings, but declined to attribute a motive to the attack. *Reuter, Colombo*

■ MILITARY EXERCISE

Chile, Argentina to link up

Chile and Argentina will carry out joint military exercises next year, for the first time in their recent history and less than 20 years since the two countries were on the brink of war over a territorial dispute in the Beagle Channel. The announcement was made by the defence and foreign ministers of both nations at the end of last week, after a two-day meeting at the Chilean resort of Zapallar.

Both countries said they would be seeking support from an international financial institution – the International Monetary Fund and the World Bank were mentioned – to help develop standard accounting practices for defence spending in the region, to allow accurate monitoring. Making defence costs public and explicit has been a particular concern of Mr Edmundo Perez Yoma, Chile's defence minister. Argentina and Peru have both expressed concern over Chile's planned new weapons acquisitions, which include two submarines, 20 fighter aircraft and 67 tanks. *Imogen Mark, Santiago*

■ LIBERIA ELECTION

Close race in presidential poll

Liberians, who voted in elections at the weekend to end seven years of civil war, were waiting yesterday to see whether Mr Charles Taylor, the man who started the conflict, would win power.

The count, which began by candlelight, pointed to an unexpectedly close race between Mr Taylor and his main rival, Ms Ellen Johnson-Sirleaf, the former UN development programme Africa director. Ten other candidates, including Mr Alhaji Kromah and Mr George Boley, two of Mr Taylor's fellow warlords, took part in the presidential ballot. Final results are unlikely before Wednesday. Voters were also electing 26 senators and 64 lower house deputies in the poll, based on proportional representation. *Reuter, Monrovia*

■ FIGHTING IN AFGHANISTAN

Opposition takes Charikar

The Afghan opposition alliance said yesterday its forces had a taken a key town and a nearby airbase in a rout of the Taleban militia north of the country's capital, Kabul, which was also hit by a air attack.

A Taleban spokesman, quoted by a Pakistan-based Afghan news service, confirmed the loss of Charikar, a town which about 64km from Kabul, on Saturday night. However, there was no confirmation of the opposition report that its forces had taken Bagram airbase yesterday morning. While fighting raged north of Kabul, a lone opposition jet bombed a suburb of the capital yesterday, killing at least seven. *Reuter, Kabul*

■ ALBANIA STALEMATE

Socialists snub Berisha talks

Albania's new Socialist majority raised the stakes in a stand-off with President Sali Berisha yesterday saying that, if he failed to decree the calling of a new parliament, they would convene it themselves.

Mr Berisha met leaders of his Democratic party and of smaller parties on Saturday to discuss when parliament should meet and who should be prime minister. But Socialist leaders refused to meet him. "The Socialist party urges President Sali Berisha to issue the decree to convene the People's Assembly in plenary session and tender his resignation as president of the republic," a party statement said.

Mr Berisha, whose party suffered a resounding defeat in the June 29 elections, has promised to resign once he has "fulfilled his constitutional obligations". *Reuter, Tirana*

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good morning!

Hüls AG: The Chemicals Company within the VEBA Group

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Discover The Link To Life

Big companies consider radical pension changes

By Katharine Campbell

Many of Britain's biggest companies are looking at making radical changes to their employees' pension arrangements following the government's decision to abolish tax credits on dividends in the recent Budget, according to a survey by accountants Arthur Andersen.

Two-thirds of the companies surveyed think the abolition of tax credits will trigger a move away from final salary schemes to defined contribution or money purchase schemes.

The changes mean that many employees will no longer be able to rely on their employer's scheme alone and will be forced to consider additional ways of saving, the study found.

Some companies – 6 per cent of those surveyed – said they would consider offering no pension arrangements of any kind.

"This Budget may have a more pronounced effect on companies with final salary pension schemes than the 1995 Pensions Act," said Ms Carol Woodley, partner in charge of the pensions practice at Arthur Andersen.

The survey, the most extensive of its kind published since the Budget, covers 50 companies, all employing more than 500 people. Most are constituents of the FTSE 350 index.

The abolition of tax credits effectively cuts the value of a pension fund's income from UK equities by 20 per cent. The survey also underlines the extent to which pension funds may shift some of their assets out of UK equities. Some 92 per cent of companies said they planned a review of investment policy.

In a final salary or defined benefit scheme, the payout consists of a proportion of final salary, representing an open-ended commitment on the part of the employer, whereas in money purchase schemes, the return depends on how much each employee has accumulated.

More than 80 per cent of companies surveyed say they will review the structure of their schemes, compared with only 20 per cent in a survey conducted a year ago. Even so, the report argues that companies are still significantly underestimating the increased costs of operating existing arrangements.

Long-term investment returns achieved by pension schemes are likely to fall by ½-¾ per cent, according to the report's authors, which will increase the long-term cost of pension provision.

The rise in costs could be more than 25 per cent of current costs for many final salary schemes, it has calculated – particularly if employees pay a fixed rate of contributions. But when companies were asked to guess how much more they would be spending to run existing schemes, the majority of respondents estimated increases of just 5-10 per cent.

Employees will be expected to bear some of the extra costs incurred, with over a third of companies suggesting they would pass these on.

Brinkmanship to be tested following restoration of ceasefire

Unionist chief faces dilemma over peace

By John Kampfner, Chief Political Correspondent

By securing the restoration of the IRA ceasefire, Mr Gerry Adams has thrown the spotlight back on to Mr David Trimble. The Sinn Féin president, for all his movement's association with violence, will try to present himself internationally once again as a purveyor of progress, the leader of the Ulster Unionists as a force of obduracy.

When Mr Trimble meets Mr Tony Blair, the British prime minister, today he will be faced with a dilemma – can he risk opprobrium with the unionist movement for acceding to terms for negotiations with Sinn Féin that fall below requirement; or does he risk blame from the broader community for scuppering the first chance of peace and political progress for three years?

It will be a close call, and the initial reaction to the ceasefire from senior Ulster Unionists was anything but positive. Yet Mr Trimble has proved himself more canny and flexible than his old image gave him credit for.

Senior ministers hope that some of the hard talking is brinkmanship. Mr Blair and Ms Mo Mowlam, the Northern Ireland secretary, will seek to reassure Mr Trimble that they have not deviated from the six principles for political engagement in Northern Ireland set out by former US senator George Mitchell, the chairman of the multi-party talks, in January 1996.

Mr Trimble has to decide on Wednesday whether or not to endorse the programme for the multi-party negotiations agreed by London and Dublin. Neither government will say what it would do if the Unionists walked out, but they have allowed the prospect of a referendum over the heads of politicians to be aired. Mr Trimble knows that if he stays away, he yields further power to the Irish government.

For Mr Blair – as it was for his Conservative predecessor, Mr John Major – each step is a balancing act. In his keynote speech on Northern Ireland, shortly after taking office, Mr Blair spoke of the unlikelihood of a united Ireland for several generations.

Yet, Mr Blair is battling hard to shake off accusations of bending over a little too readily to meet the concerns of Sinn Féin – especially only a few weeks after the murder of two policemen in Lurgan.

Mr Blair and his officials will have learnt from past difficulties. When Mr Major and his then Ulster secretary, Sir Patrick Mayhew, sought clarification from the IRA, that its August 1994 was permanent and unconditional they got nowhere. When Sir Patrick outlined three conditions for Sinn Féin's entry into talks – acceptance of the principle and practicalities of paramilitary decommissioning, plus an initial "gesture" – they were accused of breaking their word. When the final demand was shelved – shortly after the end of the ceasefire in February 1996 – they were accused by unionists of rewarding violence.

The final element in the jigsaw that facilitated the restoration of the latest ceasefire was Mr Blair's declaration that the talks would have to begin in earnest in September and end eight months later.

There is little euphoria this time around, a stark contrast to August 1994. Everyone has been there before, and each side feels wronged. Mr Trimble's role in the next few months will be crucial. If he refuses to sign up, weeks of difficult bilateral discussions are likely to ensue.

Press Association

Gerry Adams after the announcement of the ceasefire

Timing strengthens IRA's hand

By John Murray Brown

The euphoria that greeted the last IRA ceasefire was noticeably absent this time.

Sinn Féin, the IRA's political wing, has certainly stolen an early march on the unionists, who are now under pressure to accept what are essentially the IRA's concerns about arms decommissioning or risk bringing down the talks. But many hardline republicans are also wary of a process which they fear will seal the union with the UK.

Mr Gerry Adams, the Sinn Féin president, said yesterday that he had only gone to the IRA with his "recommendation" after a meeting of Sinn Féin's national executive in Dublin on Thursday – perpetuating the idea that the "politicians" are separate from the military men.

In 1994, the Army Council is said to have voted narrowly in favour of a ceasefire, although the move had been well flagged during a process of consultation with republican grass roots.

This time, the IRA has timed the announcement to maximise the tactical advantage over the unionists. In so doing, there are dangers it may not have brought some of the more recalcitrant rank and file on board.

Mr Adams dismissed one Dublin newspaper report that IRA members had been told the ceasefire would be reviewed after four months.

The IRA statement was also striking for its lack of any reference to the paramilitary beatings, and other terrorist activities all of which continued during the last ceasefire. Mr Tony Blair, the British prime minister, will want to see the ceasefire in place "in word and deed" before Sinn Féin is admitted to the talks.

More difficult will be the process of political education for grass roots republicans. As Mr Dick Spring, the former Irish foreign minister, said yesterday they are "living in cloud cuckoo land" if they believe the negotiations will deliver anything close to the united Ireland.

If one factor determined the IRA's decision to call another ceasefire, it was the government's reassurance that the arms issue would not be allowed to block progress at the talks. Sinn Féin's final misgivings were answered in a letter from the Northern Ireland Office on July 9, which was published last week. The issue has preoccupied parties at the negotiations, and those like Sinn Féin who are not yet in attendance, for more than two years.

The compromise suggested by the former US senator Mr George Mitchell was that arms should be taken out of commission as advances were made in the talks.

The Mitchell proposals are broadly the same as the joint paper agreed by the British and Irish governments, on which the parties are due to vote on Wednesday. The job of verification is be entrusted to an independent body of international experts.

Welfare reform costs revealed

By Nicholas Timmins, Public Policy Editor

A planned transformation of Britain's welfare state would cost at least £4bn ($6.68bn) a year, rising to £10bn, according to data from the Department of Social Security.

The figures are contained in a leaked document seen by the Financial Times, which warns that employers would also face higher national insurance costs. This would be on top of the £4bn.

The plans were drawn up by Mr Frank Field, minister for welfare reform, last year when he was chairman of the House of Commons social security committee.

The DSS said yesterday Mr Field's plans were still under consideration. "Everything remains still in the frame, certainly at this stage. It is unrealistic to think that he is going to ditch every idea he has ever had, just because he is in government."

The cost calculations were drawn up for Mr Peter Lilley, former social security secretary, on March 4, two weeks before the general election was called. They were delivered two days before Mr Lilley announced "basic pension plus", the Conservative government's proposal to privatise the whole of state pensions.

Mr Lilley asked civil servants to compare the cost of his proposals with those drawn up by Mr Field.

Mr Field had been encouraged to go ahead with his proposals for what he described as "a total reconstruction of welfare" by Mr Tony Blair, then the Labour leader.

The minister's complex package involved winding up SERPS, the state earnings-related pension scheme, and raising both National Insurance contributions (NICs) and compulsory contributions to private, funded pension schemes.

The government would pay in contributions for carers and a new, mutually owned, national insurance corporation would provide cover for unemployment and for residential and nursing home care, while half the cost of the National Health Service would be switched to NICs.

At the time, Mr Field said that his scheme, which involves dramatic tax cuts to offset the higher compulsory contributions, would cost about £3bn a year.

But DSS officials say in the leaked document: "We estimate that Frank Field's proposals on pensions and insurance alone would cost over £4bn a year rising to perhaps £10bn a year in the longer term." Mr Lilley's proposals, by contrast, would have cost an extra £160m each year on average, accumulating to a figure of £7bn a year by 2040.

THIS WEEK

President is a law unto himself

DATELINE

Paris: France may no longer have a monarchy but the head of state retains some impressively regal powers, writes **Andrew Jack**

The French may have abolished the monarchy for the first time more than 200 years ago, but they have made a good job of ensuring that their presidents maintain some rather impressively regal powers.

When the revolutionaries stormed the Bastille in Paris in 1789, they found just seven prisoners whom they could symbolically liberate from the tyranny of the *ancien régime*.

So they would have been rather surprised to discover that the latest incarnation of the guardian of republican values – President Jacques Chirac – out-did the extravagance of even Louis XIV by exercising his power to pardon no fewer than 3,840 prison inmates last week.

The date, of course, was July 14 – otherwise known as the *Fête Nationale* in French (and as Bastille Day, curiously, only in English) – which has become associated with the "traditional presidential pardon". The French press scarcely mentioned it.

By August, the lucky subjects touched by his generously dismissive flick of a regal hand will have been told that one in every four weeks has been lopped off their outstanding sentence, up to a total of four months.

Royal and presidential pardons were all very well up to 1981, when the usual object that otherwise risked being lopped off was a human head. But since the late François Mitterrand's government abolished the death penalty, even this back-handed justification has been removed.

Nowadays, the waiver of the head of state covers a range of crimes. This year, exemptions from the pardon include individuals linked to drug trafficking and dealing, violence against policemen and prison wardens, terrorism, corruption and crimes against children.

These rules suggest, incidentally, that at least six of the seven original Bastille prisoners would not have been freed in 1789: four because they were held on corruption charges, and two because they were insane (and hence would probably not now be in prison at all).

The seventh might also have lingered on in the dungeon under President Chirac's pardon, since he was convicted of incest.

Pardons, by the way, should not be confused with amnesties. These equally outrageous indulgences for minor offences have a similarly pre-revolutionary history, and have also therefore become "traditional" – in other words, accepted and uncriticised – after each French president is voted into office.

Amnesties have had a number of unfortunate consequences. Not least they encourage fare-dodging on the metros, illegal car parking and a huge escalation in the number of drunk-driving accidents in the months preceding elections, as the irresponsible citizens of the republic flagrantly disregard the law in the (usually correct) belief that their sins will be struck out before they are even summoned to court.

But at least amnesties have the advantage of being a little more democratic. The head of state may propose, but the French National Assembly must vote on which waivers are granted (and, to his credit, President Chirac excluded drunk-driving from his law in 1995).

Pardons, by contrast, require no such parliamentary scrutiny. One of the simplest and shortest clauses in the French constitution – article 17 – states baldly that the president has the right to grant them. Full stop. He can consult an officer in the Ministry of Justice, but he need not accept the opinion proferred.

President Chirac has done much to reduce the trappings of office associated with his predecessor. There are no "pharaonic" public building projects in the pipeline. He has cut down on the size of his entourage.

He has even allowed pedestrians to walk past the entrance to the Elysée without having to cross to the other side of the road (although this does not, bizarrely, apply to the flanks of the palace).

But when it comes to exercising his right of pardon, he seems to be stubbornly holding on to his inherited privileges. It is one area in which his power cannot be challenged in spite of the growing tensions over his role during political cohabitation with the new socialist government.

It is an authority that leaves many with mixed feelings. "We are the only remaining absolute monarchy in Europe," bemoans one French lawyer, highlighting pardons as a powerful example of the continuing strength of the presidency under the Fifth Republic without any counter-balancing power.

Symbolically, pardons delegate penal decisions to presidential whim, distracting attention from national discussion of the need for prison reform and prisoners' rights.

They also – like amnesties – send a message to the French that the rule of law, and the decisions of judges, are not really to be taken too seriously.

That looks increasingly embarrassing for a president who has said that reform of the judicial system – and implicitly the end of political interference – is central to his seven-year term.

FT GUIDE TO:

GOLD

The gold market has been looking pretty sick since the Australian central bank announced it had sold most of its reserves. What's going on?

The Reserve Bank confessed earlier this month it had sold 167 tonnes of gold since the beginning of the year, more than two-thirds of its total holdings. This knocked the gold price to a 12-year low of less than $316 (£189) an ounce.

The price has recovered a little, but still ended last week at only $324 an ounce. The fall undermined the share prices of gold producers worldwide and left Australia's own industry furious. Mr Toni Poli, chairman of one low-cost producer in Western Australia, Eagle Mining, called it "the nail in the coffin".

But central banks have been selling gold for some time, haven't they?

True, although gold industry lobbyists point out that 19 countries were net buyers last year against only 16 net sellers.

The Australians are also relatively modest players. The recent sales have probably demoted it from 18th in the world gold holdings league table to about 30th, leaving it with about as much in its vaults as Thailand and Kuwait.

Other sellers have disposed of more: the Netherlands unloaded 300 tonnes last year, but still has 10 times as much left as Australia. Belgium has also been a heavy seller since 1991 and plans to dispose of another 134 tonnes.

So why the fuss?

It is the motive for its sales that makes Australia different – and the fact that it is a major gold producer which might be thought to have more interest than most countries in maintaining a high price.

The Dutch and Belgian gold sales are assumed to have been in part to raise money so they can meet the fiscal criteria in the Maastricht Treaty. Switzerland is also planning disposals, but specifically to finance a humanitarian foundation following the controversy over its holdings of Nazi gold.

What were the Australians up to then?

The Reserve Bank seems simply to be behaving like an ordinary investor. It is rebalancing its portfolio to improve the return that it earns on its wealth. The possibility that others might follow suit pushed the gold price down three times as much in the week after the Australian announcement than other central bank sales have on average.

That makes sense, I suppose. After all, gold does not earn any interest and it has hardly been a great store of value.

That is not strictly true. An estimated 50 central banks realise a small return on their gold reserves by leasing them to the market. Banks and bullion dealers then lend them on to producers and fabricators who use it to fund hedging positions or as working stock. This yields a return of 1 or 2 per cent – not much, but comparable with holding Japanese yen.

As for gold's performance as a store of value, this depends on the time period you look at. The gold price peaked at about $850 an ounce in 1980, dropped to $320 an ounce in 1993, rebounded to $417 early last year and has fallen since.

But although gold has been a poor investment in recent years, enthusiasts point out that it has given a return comparable to US Treasury bonds over a century or so.

Would we be better off if other central banks followed Australia's example?

Yes, but there would be winners and losers, according to a recent study published by the US Federal Reserve.

This suggested that the immediate sale of all government gold reserves would produce an improvement in economic welfare worth $368bn. Most of this would take the form of higher government revenues. But the price would fall from the $350 an ounce assumed at the time of the study to $309 an ounce, hurting private stockpilers and mine owners.

If it was only the US government that sold its gold, the study estimates that the price would have fallen to only $340 an ounce. The US would have received $89bn in revenue, 10 per cent more than if all governments sold.

"Each government makes more revenue if it sells before other governments either sell or announce a sale," the study argues.

"This may be important in explaining why some governments have made sizeable sales over the last several years and why there are rumours of future sales."

So what's stopping the others?

Most central bankers are still reluctant to dispose of an asset which offers insurance against inflation and is not someone else's liability – hence gold tends to do well when government bonds do badly.

And in countries such as Germany, where hyperinflation has destroyed paper currencies twice this century, it retains an almost mystical allure as the ultimate store of value in the event of catastrophe.

A new younger generation of central bankers around the world thinks this overly sentimental, so gold sales are likely to continue here and there. But we have yet to see one of the really big stockpilers – the US, Germany, Switzerland, France or Italy – announce significant disposals. If and when that happens, recent market turbulence may look like a storm in a teacup.

Robert Chote

The Monday Profile: Pietro Marzotto

Not the retiring kind

Count Pietro Marzotto does not give the impression of a man about to take a back seat in the affairs of his family company. He walks straight out of a meeting into his new executive deputy chairman's office, lights a cigarette, looks impishly across the table and says it is logical to be stepping back from the day-to-day running of one of Italy's biggest textiles and clothing groups.

"I'm 60," says Marzotto's chain-smoking chairman.

"Don't believe a word of it," quickly adds Jean de Jaeger, the executive deputy chairman. "He certainly continues to be very present in the business."

Of all Italian family-controlled businesses, Marzotto is probably the best and oldest example of Italian family capitalism. Count Marzotto is part of the fifth generation of Marzottos to run the company based in Valdagno, an industrial village in the rich north-east of the country.

The Agnellis, who control the Fiat automotive empire, are only three generations old. The Benettons, up the road from Vicenza in Treviso, are just one.

These days the successful Italian model of family capitalism is strained. The Pirelli family has had to give up control of its tyre group. Fiat is in the throes of a difficult succession. Mediobanca, the secretive Milan merchant bank which has acted for decades as match-maker and financial partner for Italy's big private family groups, is in turmoil.

And Marzotto has not escaped the general upheavals facing family controlled enterprises.

The company nearly pulled off one of the biggest deals of the year when it agreed to merge with the HPI group, an industrial holding controlled by the "Who's Who" of Italian private business including Fiat, Mediobanca, Pirelli and the Pesenti family.

It would have created one of the world's biggest textiles and clothing companies with top labels such as Marzotto's Hugo Boss and Ferre and HPI's Fila and Armani. But the marriage collapsed before consummation.

"The plan made sense, but I realised that we had different points of view and therefore decided not to go ahead," explains Count Marzotto. "It was an opportunity, but we did not need to do it."

The company, he says, can continue to grow without HPI.

Count Marzotto refuses to go into details on why the merger never happened.

He will not be drawn on Mediobanca's role in the affair although he is a shareholder and board member of the bank. When asked if it is not ironic he was called in to help sort out Mediobanca's internal power struggle, he simply puffs at his cigarette.

The HPI affair confirmed Count Marzotto is no walkover. When he felt matters were not going in the interest of his company, he did not hesitate to pull out.

The markets seem to have approved his resolute action. Since the engagement, as he calls it, was broken off nearly four months ago, Marzotto shares have gained about 33 per cent.

From the outside, the affair seemed a classic family row behind the closed doors of Italy's *salotto buono* or "good drawing room" of private family capitalism. But that has not changed Count Marzotto's belief in the virtues of family capitalism.

"In most countries, companies are born around a man and his family. The problems occur with generational change. Shareholders continue to be members of the family. But in a family there are not necessarily the people who can manage a company with the same success as the first generation," he explains.

Equally, he argues, companies without a strong core of controlling shareholders are also at risk.

"You can reach an excess in a public company when management reproduces management without any shareholder control," he says.

In short, there are two distinct roles in a company: shareholders who control; managers whose job is to increase value. Even though circumstances have greatly changed in the 157-year history of Marzotto, the basic rules of sound management have not.

Count Marzotto regards himself first and foremost as a manager. For the past 25 years he has been chief executive until his decision to drop his executive role in the company's recent internal management reorganisation. He says the company has delivered good value to its shareholders in the past two decades which has seen it grow steadily through a series of acquisitions.

But he concedes that Marzotto's family structure will create problems in the longer term. Six brothers and sisters own 53-54 per cent of the company now.

"With their sons and nephews there will be 60 or 70 family shareholders in the next generation in 20 years' time. That could create a danger since we would lose our core shareholding stability," he explains.

One attraction of the aborted HPI merger would have been a new set of stable shareholders for Marzotto.

Could the HPI deal not be revived? Count Marzotto puffs at his cigarette. "We never close our door with a padlock. We are business people," he finally mutters.

Then he jumps up and says he is late for a working lunch.

Whoever said he was stepping back from day-to-day business?

Paul Betts

Gerard Baker · Economics Notebook

Better uses for a tax windfall

The likely benefits of a cut in capital gains tax remain unproven

By the end of the month, the US government looks set to finalise the largest tax cut Americans will have enjoyed since the heady days of Reaganomics in 1981. The Clinton administration and the Republican congressional leadership are close to sealing US budget plans for the next five years.

Assuming they overcome their remaining differences, the centrepiece of the package will be a tax reduction, not in personal or corporate income tax rates, but in the federal tax on capital gains – profits realised from the sale of assets such as stocks or property.

The decision to focus the substantial fiscal dividend of the current prolonged expansion on capital gains tax reductions is a recognition of the philosophical and political triumph of Republican ideas in the past few years.

Republicans have long argued that cutting the tax would be the most efficient fiscal means of bolstering long-term economic performance. They claim it would not only promote savings and investment and benefit the stock market, but would actually pay for itself in tax revenues. Because of the stimulus it would give investment, it would raise growth and, therefore, the overall tax take in the long run.

With a reduction worth up to $35bn (£21bn) over five years now looking highly likely, these arguments are about to be put to the test. What can we expect?

Currently capital gains tax is paid on profits made only when investments are sold. The income-related scale has a top rate of 28 per cent, with a lower rate of 15 per cent. Under the Republican proposal, the effective top rate would be reduced to 20 per cent, with a lower band at 10 per cent.

Republicans would also allow indexing to eliminate taxes on gains attributable to inflation. The president's counter-proposal would leave the top rate almost unchanged, but reduce the tax for those in middle-income brackets, and leave all gains non-indexed.

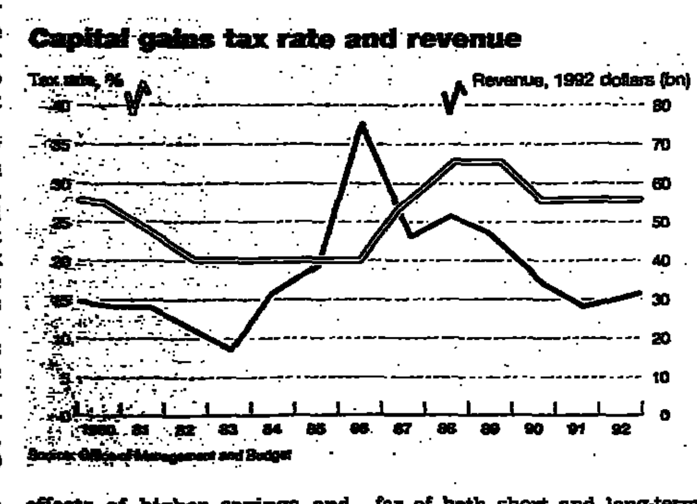
Whatever compromise is reached, the likely outcome seems a cut that will reduce capital gains taxes paid by an average taxpayer on the sale of, say, a $10,000 investment, of about 10 per cent, a sizeable reduction.

On the face of it, reducing the relative disincentive for individuals to save rather than consume ought to stimulate savings and investment. The first reaction of investors will be to sell some of their assets, unlocking many of the gains that had hitherto been locked in. Supporters of the tax cut say that will produce an immediate boost to savings, since investors will reinvest the gains.

After that initial effect, a tax cut raises the after-tax return on equity to shareholders and lowers the cost of equity capital for companies.

According to some serious modelling by Allen Sinai, chief economist at Primark Decision Economics, a tax cut of the sort being proposed would lower the cost of equity capital for companies by more than 5 per cent, stimulating capital investment.

Sinai calculates the knock-on effects of higher savings and investment through the economy as a whole would lead to a small but appreciable increase in the growth rate of the economy's productive capacity of about 0.2 percentage points, from the current estimated 2.3 per cent. Government revenues would rise by more than enough to offset the effect of the lower tax rates, because the reduced tax would encourage investors to realise their gains more frequently. What does recent empirical evidence tell us?



There have been two significant changes to the capital gains tax regime in the past 20 years. Attributing subsequent economic effects to the changes is difficult because it is almost impossible to disentangle other factors, unrelated to the tax change, that may have affected activity.

Nonetheless, the evidence so far of both short and long-term benefits from a tax cut is not encouraging.

In 1987 capital gains taxes were increased. In anticipation, individuals and companies realised a mass of gains at the end of 1986. On the tax-cutters' model, this should have raised personal savings. In fact, the savings rate declined by a whole two percentage points in six months. Consumers simply took the gains and invested them in more holidays, cars and yachts.

What about the longer term, will investors save more as a result of the lower tax rate? Again, the empirical evidence does not support the case.

Immediately after the last big capital gains tax cut in 1981, the personal savings rate declined steadily. The peak of the savings rate in a 20-year period was 1981. Although other factors contributed to the fall in savings, there is no evidence that lower taxes slowed the pace of decline.

This is not inconsistent with identified patterns of consumer response to other forms of tax cut. If, as a result of the tax reduction, investors believe they can meet their long-term savings goals with slightly smaller levels of investment, they will save less, not more.

Nor is there encouraging evidence that capital gains tax cuts raise revenues. In both 1981, following a tax cut, and in 1986, before a tax increase, revenues surged because of the increased pace of realisations. But they soon reverted to a pattern of growth that seemed largely unaffected by the change in tax.

According to new research by Jane Gravelle, an economist at the Congressional Research Service, there is little evidence that the pace of realisations of capital gains increases by very much after a tax cut. If people are not induced to sell their investments, it is hard to see how the government can increase its revenues.

At best the case for a capital gains tax cut is not proven. It seems that from the standpoint of both efficiency and welfare, the government has demonstrably better things to do with its tax windfall – everything from simple deficit reduction to targeted tax cuts for poorer families. A capital gains tax cut could prove to be an opportunity missed.

The Revenue Cost of Capital Gains Tax Cuts, Congressional Research Service, June 1997.

MANAGEMENT

Britain's improved factory production testifies to the 'missionary effect', says Peter Marsh

An international blend of ideas

Two years ago the UK factory of Timken, the US's biggest maker of rolling bearings for industry, began to brainstorm. Shop-floor workers were encouraged to come up with new suggestions. The result was 1,000 ideas for improving production.

The ideas to flow from the brainstorming were combined with experience gained from the group's other worldwide manufacturing sites. Changes in ways of working ensured that productivity at the plant near Northampton increased by 10 per cent in a year.

Timken's experience illustrates the power of what can be called the "missionary effect" – that is, the impact on industry of the 75 per cent increase in foreign manufacturing investment which has taken place in Britain between 1984 and 1994. About a quarter of Britain's manufacturing employees work for non-UK companies, up from about one-fifth in 1990.

The missionary effect boils down to the injection of new ideas by inward investors, either directly into their UK subsidiaries or into suppliers.

The effect is underlined in a forthcoming study by the National Institute of Economic and Social Research. The study indicates that up to a third of the UK's increase in labour productivity in manufacturing during the past decade may be attributable to concepts introduced by foreign-owned companies.

The missionary effect – with its introduction of new ideas such as self-checking methods and team working to increase quality and accelerate output – may help to explain why Britain's factory productivity has increased faster during recent years than has been the case in most comparable industrialised countries.

Even so, in most areas of industry, UK productivity, measured as value added per hour worked, continues to be lower than that of competitor nations. This is a legacy, according to most analysts, of Britain's general failure to increase its manufacturing performance through most of the post-war period.

According to Chris Voss, a manufacturing expert at London Business School, there is nothing particularly magical about the power of inward investors to introduce changes in a country's industry. These companies, he points out, because of their interest in foreign expansion, are more likely to be successful and innovative. It also follows, he believes, that they will have, on average, better ideas for increasing efficiency than typical domestic companies.

The point is emphasised by Scott Pollack, general manager of Timken's UK operations, who says the company's British factory has benefited from being part of an international plant network. "It is easier for people to share knowledge and shorten the learning curve over new techniques."

Some of the most highly publicised advances in factory efficiency recently in the UK have been in the car industry, mainly through new ideas introduced by Nissan, Toyota and Honda of Japan, all of which have set up UK plants in the past decade.

On the components side of the automotive industry, the infusion of new approaches from abroad has also had an effect. Marston, a West Yorkshire radiator and cooling system company, formerly owned by the British company IMI, was bought in 1989 by Denso (formerly Nippondenso) of Japan, one of the world's biggest automotive component groups.

During the last decade Denso has introduced several techniques to enhance quality in particular. Charles Robertshaw, Marston's manufacturing director, says the Japanese approach is to "look at nuts-and-bolts problems in a logical way, by analysing the constraints that are keeping quality low, and then deciding on countermeasures".

As a result of the new practices, in the past five years Marston has cut by 90 per cent the number of reject parts, and doubled the speed with which materials are transferred from inventory into finished products.

At Perkins, a UK-based diesel engines company, the business was until last year run by Varity of the US. It merged last year with the British automotive parts company Lucas to form LucasVarity. Spurred by its US owners, Perkins went through a big upheaval in the early 1990s. Most of its 3,500 workers in its Peterborough plant were split into small teams to focus on individual responsibility for increases in quality.

In some parts of the factory, according to Mike Baunton, Perkins's chief executive, productivity has increased 60 per cent since the early 1990s, while quality levels have also risen. Annual profits have more than quadrupled to some £60m, a performance which Baunton doubts would have been possible without the new thinking about manufacturing.

What can be labelled "second-order" effects – the transfer of ideas from customer to supplier – may in the long run play the biggest part in increasing manufacturing efficiency.

At Lander, a Birmingham car components business, John Elvidge, manufacturing manager, says the company has benefited from new ideas such as better maintenance and planning techniques introduced by Toyota and Honda, the Japanese companies which it supplies.

These have helped Lander to increase productivity by up to 10 per cent a year, while annual sales have increased by a quarter during the past two years to some £21m.

Cummins Engine of the US runs a plant in Daventry making diesel engines for power generation. The plant has a team of three people visiting its 230 suppliers to school them in new thinking, such as Japanese kaizen self-improvement methods.

Among the suppliers is Malvern Tubular Components, a maker of pump fittings, which believes its doubling in annual sales to £4m during three years has been due partly to the "tuition" it has received from its large US customer. "They [Cummins] have been a great help in practical things like reducing set-up times for machine tools," says Simon Allsop, sales director at Malvern.

It is a similar message at Agar Heatheral, a components-maker in Worcester which supplies Yamazaki Mazak, a Japanese machine-tool maker which set up its first UK factory in 1987. Assisted by new manufacturing ideas from the Japanese company, Agar has added another £200,000 in sales since 1994, doubling the size of the company. "We used to be satisfied with tolerances of 2mm, but with Mazak it's got to be right to the nearest micrometre," says Mark Garfield, Agar's managing director. "Our better performance has allowed us to find new customers."

A long way still to go

If ideas from inward investors have played a large part in increasing the UK's productivity – a theory proposed by the National Institute of Economic and Social Research – then the impact has provided only a small increase in the UK's relative position against countries such as the US, Germany and Japan.

Between 1985 and 1995, UK manufacturing productivity, as measured by value added per hour worked, grew by an average of 3.75 per cent a year.

That was the second-best performance after Japan of any of the Group of Seven leading industrialised countries, and was considerably better than the 2.8 per cent a year figure for Britain in the previous decade.

Labour productivity is one of the most closely watched indicators of economic performance. It has a powerful impact on overall living standards.

But separate data from the Organisation for Economic Co-operation and Development put Britain's performance into perspective.

In 1987, Britain's manufacturing productivity as a proportion of the average figure for the US, Germany and Japan was only 72.8 per cent.

By 1993, the last year for which comparisons for different parts of industry are available, the figure had improved, but only to 74.6 per cent.

In specific sectors, the increase in performance was slightly better. In transport equipment, including cars, the UK's productivity ratio (as a proportion of the other three countries' average) rose from a poor 46.1 per cent to 52.9 per cent.

In electrical equipment, the ratio went up from 61.5 per cent to 64.8 per cent. But in basic metal products (including machine tools) the figure fell from 63.6 per cent to 62.5 per cent. In general mechanical engineering, the decline was from 75.9 per cent to 63.6 per cent.

The star performer during the period, according to OECD data, was chemicals. The ratio rose from a respectable 92.1 per cent in 1987 to 140.3 per cent in 1993, indicating average productivity levels nearly half as much again as in the competitor nations. In the same period, the ratio for paper and printing rose from 94.3 per cent to 119.9 per cent.

The conundrum for anyone wanting to link these figures to the NIESR's findings is that neither of these last two industries has seen large amounts of foreign investment in the last 10 years. However, both started from a relatively high productivity base, and were seemingly able to sustain good performance throughout the late 1980s and early 1990s.

The conclusion is that foreign investment has helped productivity in those relatively few UK companies exposed to new ideas from abroad. But it still has barely touched the long "tail" of underperforming companies, many small- to medium-sized, which have been widely blamed for Britain's generally poor manufacturing performance.

PM

Ashley Ashwood

Bleasdale and Cariss: 'We shared a passion for the business'

PARTNERS

Match

Kate Bleasdale, 36, and her partner, John Cariss, 37, founded the nursing agency, Match, in 1986. Ten years later, they merged with G. P. Deputising Service and formed Sinclair Montrose Healthcare Plc. They opened Medicentre, the first walk-in surgery based at Victoria Station last August. Their turnover is £6m.

Kate: "We met at Putney Hospital, where I was working as a senior nurse and John was the general manager. The most frustrating part of the job was getting staff to cover. I'd spend hours trying to find appropriately qualified nurses, then an agency would send someone totally unsuitable. By outsourcing we were getting variable quality, whereas with an internal hospital agency, like Match, we could vet the nurses ourselves.

Although John was the MBA graduate, I set up the business while he carried on being the breadwinner. When he finally joined me, in 1991, it took about six months to get used to having him around. Whereas before I'd made decisions as they arose, I was now having to discuss them and defer to John. He insisted on keeping in close contact with the bank manager. Even when we were very small we kept up a flow of information which gave the bank confidence in the company. In the early days, I focused on retraining women who wanted to return to the profession, while John set about developing the computerised nursing bank system, which would match vacancies with staff.

The idea for the Medicentre came many years later after John stood on a sea urchin in the US. He was given stitches and a tetanus jab at a nearby walk-in surgery for $50 (£30). John usually takes a pessimistic approach to new concepts, but we were so impressed with the speed of the service, we were determined to make it happen in Britain."

John: "The idea for Match's computerised nursing bank came from Kate. Like a lot of senior nurses, she was doing the job in her head and finding she could only retain so many variables. By creating the software we were able to match the hospital's staff requirements three to four months ahead. Also, the system saved money because the operational fees were less than those of an outside agency.

In the early days we shared a passion for the business and to some extent we still live and breathe it.

When you're running a ward you have to keep lots of balls in the air and be able to make instant decisions which is something Kate thrives on. She's incredibly astute and isn't afraid to ask if she doesn't understand. All that, 'Let's define our mission' is management gobbledygook to her. She'd rather discuss where we are going and what we are going to achieve.

In the beginning we were conscious of keeping our personal relationship a secret. We didn't want to have a ma and pa feel, like the Moms and Pops businesses in the US. It sounds too unprofessional. When we came to float on Aim last June, we had to declare our personal circumstances in the prospectus which was awkward because we have four children but aren't married. It took the lawyers several meetings to come up with "common law spouses" which sounds terribly romantic."

Fiona Lafferty

Twaddle that makes it time to ring the changes

Lucy Kellaway

The market for management consultants has peaked. It is a bold thing to say about an industry that has been growing at 20 per cent a year and shows no sign of letting up. But funny signs tend to appear at the tops of markets. Consumers leave their wits behind and buy anything. And then before you know where you are, the thing turns, and everyone starts retrenching; all the talk is of back to basics.

One such sign is a marketing package I have just received from a consultancy called Radical. Inside was a pack of large lime and fuchsia coloured cards held together by a key ring. "A RiNG. OR PeRHAPS A RiNG OF TRUTH?", said the first card. The chaotic mix of upper and lower case made me quite at home, where I am teaching 4 and 6-year-olds the difference between their big and little letters.

Card number two went on: "Think of it as a central core of truth established by those able to look inside your company without the bias of personal ambition... At RADiCAL what we amass within this simple circle often amounts to the complete anatomy, diagnosis, prescriptions and critical measurements that will affect a company's progress. The truth, if you like, that few can see."

Even in a trade that specialises in pretentious twaddle this is quite something. It is hard to believe that anyone could hire a consultant, or even pick up the phone to call one on this basis. But when these firms, which supposedly exist to help other companies sort out their business, cannot begin to define their own, surely the time has come for what might politely be called a little rationalisation.

As a fairly punctual person, I look on lateness as a sign of moral weakness. People who are reliably late, should be reprimanded and appropriate punishment should be doled out.

Yet according to an article in last Wednesday's FT, equal opportunities agencies in the US are advising people that chronic lateness may count as a disability under US law. Presumably the idea is that people who are chronically late cannot help themselves: they are suffering from a condition that was not of their choosing, and that therefore they should not be punished for it.

But in that case chronic incompetence and chronic laziness must count as disabilities too. Indeed, on this view, we must all be disabled in one way or another.

It is hard to square this account of the disabled US citizen with the rival view of a nation of individuals in charge of their destiny. I thought that all you had to do in the US was to buy one of the millions of self-help books printed every year and any behaviour you did not like could be changed. The truth lies between the two extremes. It may not be easy to be more punctual. But if you really, *really* want to be on time, you can be.

Being late may be reprehensible, but being early is not necessarily a virtue. The attempts of many businesses to be earlier than their competitors have gone too far. Last week – ie *mid-July* – I received two catalogues of corporate Christmas cards. Both were urging me to order now and beat the rush. I wasn't aware of any rush when buying cards at the usual time; surely the best way of creating one is to start nagging at people about Christmas before they have even packed the bucket and spade for their summer holidays.

"The cards sent first stay on the wall longest," one company says optimistically. More likely the cards sent too early go straight in the bin.

I ate a pretty disgusting pizza at the weekend. So what, you might think. So nothing, except that Pizza Express does not serve bad pizzas. There was hardly any cheese, and something in the middle that tasted like condensed tomato soup. The waitress was polite, but did not cast the usual spell on a room full of noisy children. Maybe it was just a bad day; but I fear it may have had something to do with the fact that Pizza Express has recently bought back most of its franchises and is now running the restaurants itself.

One can see why the company might have been fed up with having to nanny all its franchisees through every tiny problem while getting such a small percentage of the profits. But Pizza Express is surely taking a risk. What made its restaurants so special was that each one was different. It will be hard to keep that up under the heavy hand of corporate ownership. If you want to eat somewhere where everything is portion controlled and standardised, there is plenty of choice: Pizza Hut, Pizzaland, McDonald's, Burger King, Wimpy...

BUSINESS EDUCATION

Della Bradshaw reports on the growing number of accreditation bodies

Order gives way to muddle

With hundreds of business schools offering courses in Europe, the accreditation process should help would-be students make an informed choice. But these days the growing number of bodies offering accreditation may well serve to confuse the issue rather than clarify it.

In April, Essec, France's Ecole Supérieure des Sciences Economiques et Commerciales, became the first European business school to be approved by the American business school accreditation body, the AACSB.

But it will certainly not be the last.

After years of exercising restraint over the imposition of its standards in Europe, the AACSB has finally thrown up its hands in exasperation at the machinations of European business school politics and waded in alone.

Already the Erasmus school in Rotterdam has signed up to follow in Essec's footsteps.

AACSB had initially hoped to work with EFMD, the European business school trade body which is developing an accreditation procedure, says Roy Herberger, president of Thunderbird, the graduate management school in Arizona and AACSB's president-elect. The aim, he says, was for the AACSB and EFMD to develop a common approach as all schools began to adopt an international stance.

But Brussels-based EFMD (the acronym stands for the European Foundation for Management Development) had to juggle the diverse aspirations of each member country when setting up its accreditation process. "You're talking about territories, markets and people under threat," says Herberger.

Earlier this year the UK accrediting body Amba also decided to break away from EFMD and offer its approval internationally.

With its move into Europe, Herberger acknowledges that the AACSB has introduced "a form of chaos into the market". In the short term, he says, he would not be surprised to see a number of accreditation bodies pop up – "in true European tradition".

One of the big attractions of AACSB accreditation for European schools is that the branding will help attract more US students.

But Milton Blood, managing director and director of accreditation at AACSB, believes only a core of Europe's business schools will want AACSB accreditation and they will be the ones that need a truly international presence.

The move to international accreditation has already forced changes within the AACSB. It has, for example, employed non-US assessors to give an international perspective. Bob Galliers, chairman of Warwick Business School helped accredit Essec, and Leo Murray, director of Cranfield, has also been signed up to participate.

But Herberger concedes that US norms still predominate, particularly over the length of MBA programmes – most US courses last two years. "The American MBA is still a standard that people aspire to. It still is a standard that holds high value. If I go in and look at a programme that's done in one year I look harder. It's harder for me to believe."

The AACSB, which has been accrediting Canadian schools for the past 10 years, has also spread its wings into Mexico – two Mexican schools are taking part in pilot accreditations.

As to which of the accreditation schemes will be successful in Europe, Herberger believes that will depend on which scheme the region's three top schools, IMD in Lausanne, Insead in Fontainebleau and London Business School decide to support.

In the long term, Blood says, it is difficult to predict whether the AACSB move will result in market consolidation or further fragmentation. But the door to talks with EFMD is still open, says Herberger. "In the end I think you'll see us working together because we have a common purpose."

NEWS FROM CAMPUS

Ten schools join GMAC party

In an attempt to bring a more international perspective to its work, GMAC, the Graduate Management Admission Council, has invited 10 non-US schools to join its organisation. GMAC, which organises the GMAT examination – widely regarded as the entrance exam for business schools – now has more than 130 member schools.

The new member schools are SDA Bocconi (Italy), Hec (France), Esade and Iese (Spain), IMD (Switzerland), RSM Erasmus (Netherlands), University of Witwatersrand (South Africa), Hong Kong University of Science and Technology, Fundacao Getulio Vargas (Brazil) and University of British Columbia (Canada).
GMAC: US, 703 749 0131

Specialist MBA for phone folk

Companies in the communications industry will soon have a specialised executive MBA programme. Newcastle University's School of Management has designed the *MBA in Strategic Telecommunications Management* for service providers, manufacturers and consultants.

The course is spread over two years and is followed by a six-month dissertation.
Newcastle upon Tyne: UK, (0)191 222 5353

Prison officers do a stretch

First it was doctors, then army officers, now it is prison officers who are to learn better management techniques.

The Prison Service Training Services has done a deal with the Open University Business School for an initial cohort of 150 prison staff, which will include prison governors, to begin studies in November.

The prison officers will study the OUBS's *Capable Manager* course, which will qualify them to go on and study for an MBA.

The course will cover general management as well as specific issues relating to prisons.
OUBS: UK, (0)1908 654321

CONSUMERS

Small in size, big in influence

Children are having an increasing say in what their parents buy, says **Victoria Griffith**

When Silvia and Elder Valaci decided to buy a new car, they asked their three children – ages seven, nine and 10 – for advice. "They really liked the Dodge minivan," says Silvia Valaci. "So that's what we got."

The Valacis' desire for their children's approval on an expensive purchase is not unusual. According to James McNeal, a professor of marketing at Texas A&M University, children under the age of 12 directly influence about $172bn (£103bn) in spending each year in the US. He predicts that figure will rise to $200bn over the next two years.

And, according to McNeal, those expenditures increasingly include expensive items such as computers, cars and holidays.

The phenomenon has caught the attention of Madison Avenue. "More advertising these days is what you'd call cross-over advertising, aimed at both parents and kids," says Paul Kurnit, president of the advertising agency *Griffin Bacal*.

One example, according to Kurnit, is a US advertisement for Nissan automobiles that puts two dolls in the front seat. "It's a thinly-veiled Barbie meets GI Joe scene," he explains, referring to two popular toys. "For the parents it's nostalgia. For little girls and boys it has a more immediate appeal."

Other car advertisements are also designed to appeal to the under-12 crowd. Spots for Jeep feature computer animation. A recent television commercial shows a man discovering an Isuzu car in a toy store.

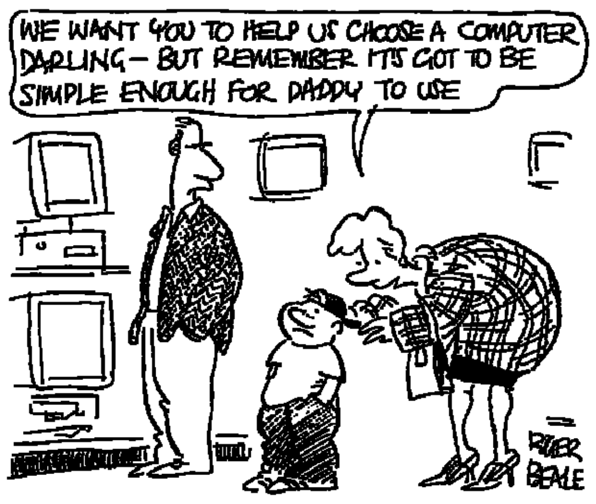
Advertisers have long recognised that children influence family purchases. Cartoon-like characters such as McDonald's Ronald McDonald and Kellogg's Tony the Tiger were designed decades ago as an acknowledgment that the young have a say in what the family eats.

Today's children help select the family bank, holiday destination and stereo.

"Not very long ago, it would have been unthinkable to ask Junior his opinion on what kind of car to purchase," says Richard Solomon, a creative director at Grey's 18-and-under division. "Today, it's very common."

Many reasons are cited for the change. Some observers suggest that today's working parents feel so guilty about spending less time with their children that they try to compensate by offering them more consumer power.

Others believe today's child-rearing practices fit in with baby-boomers' respect for individual desires.



And others say children's participation in purchasing decisions reflects, in part, parents' uncertainty about high-technology items.

"Parents may let the kids pick out the computer simply because they know more about technology," says Kurnit. "The same goes for which online service to use, which software to buy, even things like televisions and video recorders."

Advertisers are pursuing children in an increasingly aggressive manner. Promotional tie-ins are considered a key marketing strategy for fast food chains such as McDonald's and Burger King, which often offer free toys based on characters in popular animated films.

Days Inn hotel chain recently gave its young customers Fred Flintstone dolls. Delta Air Lines sends its under-12 customers a special children's magazine.

While Madison Avenue is following the trend, many companies have not recognised the importance of the children's market.

"When the kid is standing in the supermarket checkout line, what's there to grab his attention, to make it more enjoyable?" asks McNeal of Texas A&M.

"Usually they're bored to death. I've seen the staff at hotels, car dealers, retail stores, you name it, being rude to children. A lot of companies still don't realise that these are not just the future consumers; they're today's consumers too."

Ad in the News • Nike sportswear

Masters display the right attitude

You can tell when the football season is almost upon us: the transfer market becomes feverish, the cricket gets rained off and a spate of new ads featuring star endorsement of kit and boots hits our TV screens.

First into the fray is Nike with what has become an annual epic. Last year the company gave us the "good versus evil" spot when an all-star team led by the Frenchman Eric Cantona saw off a team of fiends from hell.

This year Cantona is back despite having stunned Manchester United and its fans with his retirement. Along with England stars David Seaman, Ian Wright and Robbie Fowler he is seen delighting in amateur games on the patchwork of adjoining pitches which is Hackney Marshes in real life.

Each star produces the play he is best known for: Cantona weaves through half a team before being held back; Seaman punches away a corner; Wright hits the net with a spectacular volley; and Fowler bursts through defenders at pace to score.

All are watched by the classic old man and his dog. The old man has already ignored his wife at breakfast who has been complaining that it is always "football, football, football".

The advertisement revels in this obsession. The song "Parklife" by the pop group Blur is the soundtrack. It helps to celebrate the curiously British phenomenon that is the "friendly" Sunday kickabout in the park between pub sides.

The idea is to convey the universality of the sheer joy of playing for playing's sake. Goals are celebrated and fouls endured by players who are clearly having a great time. The ad is about camaraderie too, emphasised by group shots of some of the real-life teams at the end.

The commercial epitomises Nike's strategy as summed up in its "just do it" slogan. Whatever your level of skill, Nike says, as long as your attitude is right then buy our product.

It is a formidable strategy against which to compete. Whenever rivals such as Reebok and Adidas stray into attitudinal advertising, they find themselves in Nike's territory. An example of this is the earlier "earn them" campaign from Adidas.

It is why Reebok has decided to plump for warmth and gentle humour in recent ads asking what Peter Schmeichel and Ryan Giggs would have become if they had not worn Reeboks, and in last year's commercial featuring a host of celebrities dreaming of being a famous footballer.

Meanwhile, Adidas has formulated a strategy that is founded on a combination of sporting heritage and product innovations such as its Predator boot. Smaller rivals like Umbro have elected to promote themselves as the fans' brand.

All these sportswear providers must battle the consistency of "just do it" across all sports and media. If Nike's advertising is to be faulted, then occasionally on posters it tries too hard to be aggressively macho. This commercial avoids that trap, and with its distinctive style it is bound to be much talked about.

Stefano Hatfield

The author is editor of Campaign.

Doing just fine: Nike's 'just do it' ad promotes more than sporting skill

ALTERNATIVE ADVERTISING

Credibility is all

Julia Thrift on innovative efforts to target sceptical and hard-to-reach consumers

Six months after launching a fizzy drink called Indigo, Vimto Soft Drinks allowed shops and supermarkets to stock the product.

"The shop owners have been coming back to us saying 'It's really strange – the kids know all about Indigo, but we've never heard of it. It's flying off the shelves.'" says Peter Walter, marketing manager at Vimto.

Vimto's marketing strategy for Indigo might seem perverse. For the first six months it did no advertising and restricted distribution to a handful of popular clubs.

Getting the products stocked in these venues required a strategy all of its own. "We recruited guys off the street to be our salesmen," explains Walter. "They tended to be scruffy, they knew the music, so the clubs took them seriously."

Having convinced venues such as London's Ministry of Sound to stock Indigo, the idea was that its reputation would spread by word of mouth. Ten months after the launch, Indigo is now being advertised, and distribution includes supermarkets.

"We effectively have two marketing budgets now," says Walter. "One is mass market. But to maintain credibility we mustn't neglect our original people. Credibility is everything."

It is important to gain this sort of credibility as a growing number of consumers are both wary of large companies and extremely sophisticated judges of marketing.

"It's a very difficult market to be operating in now," says Julia Lloyd-Jones, senior researcher at Verve, a research company specialising in youth markets.

"You used to just put an ad on television next to a particular programme or in a particular magazine. Now there are magazines for everything and you don't know if you've reached your audience. Because of all this there is a move to alternative agencies."

A Vision is an example of the new "alternative agencies". It developed Vimto's marketing strategy for Indigo and specialises in giving brands credibility with hard-to-reach consumers.

A Vision also works with Sony and the cable television channel VH1. It believes in using a range of young designers. "All our creative work is outsourced," says Jo Peters who set up the agency with Andy Marks. "We don't have to use the same old art director every week."

In the past, this would have meant designers creating what the client wanted. But now designers perceived to have credibility are being asked to create what they like, so long as they include the client's name.

One high-profile example of this phenomenon is Tomato, a London-based group of designers, film-makers and musicians which creates distinctive, obscure poetical images in print and film.

"People buy into us because they see what we do as being connected to the culture they want to talk to," says John Warwicker, one of Tomato's founders. "Ten years ago it would have been seen as a dilution of brand values." But perhaps 10 years ago few designers would have considered working in this way. Now, a new generation of creative yet commercially aware design groups are instigating such links.

TELEVISION

Hungary goes commercial

Kevin Done on the long-awaited launch of two terrestrial commercial channels

Hungary has waited a long time for private terrestrial commercial television. But even as the ink was drying on the contracts granting the first licences, writs began to fly last week, threatening to leave the launch of the two new channels in confusion.

Less than two weeks ago ORTT, the Hungarian national radio and television commission, ended seven years of wrangling over television privatisation. It awarded concessions for two commercial channels to consortia led by CLT-Ufa, Europe's largest independent broadcaster, and Scandinavian Broadcasting System, which is 22.8 per cent owned by Walt Disney.

The loser in the drawn-out tender process, Central European Media Enterprises (CME), is is seeking to have the decision overturned on the grounds that the ORTT allegedly breached its own tender rules.

Last week the Capital Court of Budapest set a date for the first hearing in mid-September – barely a month before the new channels are supposed to go on air.

The western television groups believe that advertising expenditure in central and east Europe will continue to increase rapidly, as market-based economies develop and competition for goods and services increases.

In Hungary the television advertising market is estimated to have grown by 18 per cent last year to $188m – significantly higher than the region's average, but low compared with west Europe.

Around 96 per cent of Hungarian households have television and more than 40 per cent have cable television.

Publicly, M-RTL, the consortium led by CLT-Ufa, is brushing aside the legal challenge posed by CME. It insists its new channel, RTL Klub, will start broadcasting before the end of the year.

"This is a debate between CME and the ORTT," says Rémy Sautter, joint chief executive of CLT-Ufa.

RTL-Klub will have a "substantial proportion" of programmes made by independent local production companies, and CLT-Ufa says that Ufa-Grundy, its 50/50 joint venture with Pearson Television, will produce Hungary's first daily soap opera.

CLT-Ufa has a 49 per cent stake in M-RTL; Matav, the Hungarian telecommunications operator, has 25 per cent; Pearson, the UK media group and owner of the Financial Times, 20 per cent; and Raiffeisen Unicbank, the Hungarian subsidiary of the Austrian Raiffeisen bank group, 6 per cent.

Sautter says that CLT-Ufa is budgeting for a total cost of the project of around $100m, including the licence fee and accumulated losses in the first four years. "We expect to start making money in 2001."

The workforce will total only 80 to 100 people with most programmes bought in or commissioned from independent production companies.

According to Sautter Ufa-Grundy will produce "series, soaps and games shows using existing Grundy formats."

Martin Lindskog, president of SBS, says the requirement to start broadcasting within 90 days of signing the contract "is a tough timetable, but it is possible".

The SBS consortium – in which MTM Communications, the Hungarian production company has 38.5 per cent, and Tele-München Fernseh, the German production company 12.5 per cent – is planning to call its channel TV-2.

The existing state-run MTV-2 is being transferred to satellite.

According to Lindskog TV-2 will be a "broadly based family channel aiming to get the biggest possible share of the total audience. In Hungary we have the chance to be number one and we will be going for the mass audience."

SBS believes the advertising market "will be very strong" with many international consumer goods companies keen to establish their brands and to use Hungary as a bridge to other central European markets. "We are calculating on modest growth but on taking a substantial share," says Lindskog.

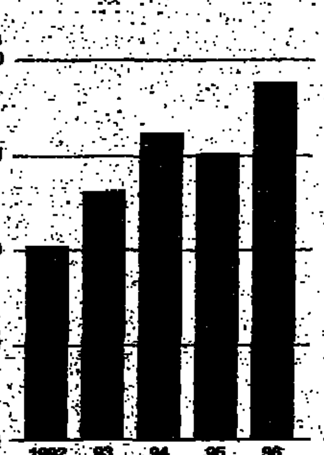
And Harry Evans Sloan, SBS chairman, says he will not have to go to the stock market to raise new capital for the venture.

But Steve Varcoe, executive media director for McCann-Erickson, the US advertising agency in Hungary, cautions against overconfidence.

"As a percentage of gross domestic product advertising spending in Hungary is already one of the highest in Europe, east or west. The multinationals moved into Hungary early, so first we need growth in the economy – then advertising can grow too."

TV advertising expenditure in Hungary

Harry Evans Sloan, chairman SBS



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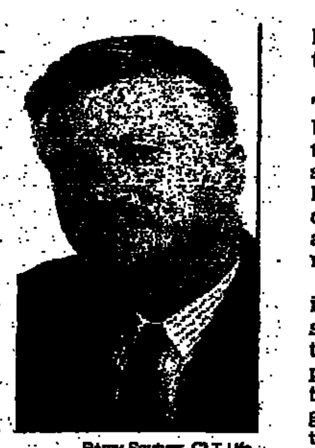

Rémy Sautter, CLT-Ufa joint & chief executive

INTERNET

Showcase to attract tourists

The UK's largest internet site was launched last week by the British Tourist Authority. The BTA hopes to attract more visitors by targeting the world's 50m internet users.

Unlike the authority's previous internet shop window, the new site – *www.visitbritain.com* – accesses data held by Britain's 800 national and regional tourist boards.

The site displays picture-postcard style images of Britain's cities and countryside, maps and details on accommodation, travel and events.

Browsers will be able to create a "virtual brochure" by storing items that interest them in one place. *These selected items can* then be printed out.

The old BTA site attracted 400,000 hits a month. David Quarmby, the chairman, predicted the new 40,000-page site would attract several million browsers within months. By capitalising on the commercial potential of the data held by the tourist boards, more people would be inspired to take their holiday in Britain, to stay longer and to spend more, he said.

The site's £300,000 ($501,000) first-year start-up cost is likely to be offset by advertising revenue and commercial partnerships. Providers, such as hotel chains, will be able to link their central reservation systems or internet sites to the BTA site for a charge.

British Airways was the first advertiser to take advantage of the site.

Chris Smith, secretary of state for culture, media and sport, the renamed Department of National Heritage, said tourists were becoming more independent and liked to make their own *travel choices.*

He thought the site would bring substantial benefits to the tourism industry by "bringing Britain to the notice of the world and attracting more visitors to Britain".

Scheherazade Daneshkhu

MARKETING

Technobabble is out

Why does Informix, a Silicon Valley-based world leader in database software systems, believe the UK, not the US, should be the main testing-ground for all key IT initiatives?

Barbara Stanley, head of the Informix European market development team, explains: "In the US, where the 'gee-whizz' factor is very high, it is comparatively easy to attract attention for the latest technology product, because the American user is so positive about any innovation.

"*But US* companies are constantly surprised and disappointed to discover that what goes down so well in the home market doesn't necessarily attract any interest in more sceptical Europe.

"We take the view that the *more reserved European personality* – where people want to try before they buy, and don't necessarily take 'technospeak' at face value – makes Britain an ideal environment in which to test consumer reaction to a new product."

Informix tested its "information superstore" in Feltham, West London. This is a novel, try-before-you-buy data warehousing facility which allows companies to experiment with Informix software before purchasing it.

The company also recently launched what it calls the world's first "universal server", a database management system that handles video and graphics information, as well as the standard numbers and text.

In spite of a mixed reception from IT analysts, the universal server has been bought in the UK by the Natural History Museum, Kuwait Petroleum, Merrill Lynch, Waterstones and Benetton.

While the launch was in effect handled simultaneously across the world, the UK's marketing approach was low-tech.

The UK ads were short on *copy but featured large illus*trations. In the US, ads talked about such concepts as "the power of relational database technology" and "mission-critical transaction processing".

The two approaches highlight how far apart the UK and US are in terms of their technological development, according to Stanley.

"In the US, it was probably OK to use this degree of technobabble.

"But in the UK, where IT is not at the same level of sophistication, it was more appropriate to use everyday language and avoid the sort of jargon that has European customers turning off."

Virginia Matthews

Raymond Snoddy • Media

The fallacy of maturity

There has been a number of raised eyebrows at the decision by the Mirror Group to pay £297m for Midland Independent Newspapers. Some saw it as a curious, sideways, if not actually backwards, move which did nothing to solve the Mirror's perceived problems: being trapped in the murderously competitive popular national newspaper market with cross-media ownership rules barring any significant escape into mainstream television.

It was clearly a case of making the best of things, because no sensible large media group would voluntarily decide to pay high prices for local and regional newspapers, would they?

After all, in the past 18 months Emap, International Thomson, Pearson (owners of the Financial Times), and Reed Elsevier have been falling over each other to dispose of their regional press interests. It was, they all reckoned, a mature business of low margins doomed to little other than decline in the face of ever-increasing competition from the expanding world of electronic communications.

In the end, however impressive the short-term gains, I think it will be the purchasers of the regional press – groups like Trinity International, Johnston Press and even Mirror Group – which will have the smiles on their faces rather than the sellers.

In major markets, including the US, newspapers are in fashion again, and in some places the unthinkable is happening: circulations are starting to rise.

In part, the euphoria is cyclical. Classified ads are doing well and the ruinous rise in newsprint prices has come to an end.

But in the UK canny media players have been quietly diversifying into local papers for some time. Jimmy Gordon, the chairman of Scottish Radio Holdings, moved into local papers in Scotland and Northern Ireland and produced useful increases in profits as a result.

Before moving for Midland Independent, David Montgomery at Mirror Group took over the UK's oldest newspaper, The Newsletter in Belfast, and is in the midst of reviving it with the help of news and features from other parts of the Mirror empire.

What has blinded the large media companies and the consultants who prey on them is the concept of the "mature" business.

Too often it has been a self-fulfilling label. Regional newspapers are "mature"; therefore the thing to do is cut costs, reduce investment and increase profit margins for as long as you can get away with it. Strangely the readers notice what is happening and circulations start to fall, often dramatically.

This in turn proves conclusively that theory is correct and those who spotted it in the first place are rewarded for their foresight and mental agility.

The real question when assessing any medium of communication as a business is not whether it is "mature", but whether it has any unique characteristic which is useful or pleasurable.

> The real question when assessing a medium of communication is whether it has any unique characteristic which is useful or pleasurable.

Radio ought to have been rendered obsolete by the arrival of television. In fact for the past four years commercial radio has been the fastest growing medium in the UK. It is personal, portable and user-friendly.

Television was also supposed to eclipse the cinema, and nearly did, except that cinema attendances have bounced back vigorously in recent years following new investment.

The arrival of around 90 cable and satellite television channels ought to have put great pressure on obviously mature, if not geriatric, public service broadcasters such as the BBC. Instead the Beeb's share of viewing has increased in each of the last four years.

Local and regional newspapers have in most cases unique franchises. If they are allowed to do their job properly they will remain almost the personification of a sense of local community, something that will be valued more, not less, in a homogenised future.

As people try to come to terms with a deluge of digital images and information it is trusted, mature, brands that they will reach for.

It goes without saying that given the nature of media competition local papers will have to be properly resourced, skilfully managed and cleverly marketed.

Another perceived negative for the regional press, the internet, could actually be a strength. If we are all going to be hooked up in future and looking for local news on our computer screen then regional newspapers are best placed to provide it.

So the next time you hear someone banging on about local newspapers being a mature market, smile quietly – and cross the road.

Tim Jackson • On the Web

Plan for the age of the plane

In the past week, a few dozen households in New York have written cheques for $250 (£150) that could change the world of telecommunications. They have signed up as customers of a new kind of wireless internet access service, delivered by a company called Cellular Vision USA.

Using the basic principles of cellular phones, the service gives household and business customers access to the internet that is four times faster than ISDN and 20 times faster than a standard phone line.

I believe this service will change the world because it will overturn the assumption that telephone and cable companies will be the primary beneficiaries of the much-oversold information superhighway.

First, though, a word on technology. CellularVision sends out digital data to customers at microwave frequencies from base stations similar to those used by mobile phone companies.

But there is one key difference: Bernard Bossart, CellularVision's leading inventor, has patented a technology that allows each base station to use the same frequencies as its neighbours – instead of having to avoid signal interference by not using the frequencies of adjacent stations.

The result is that CellularVision's system – known generically as Local Multipoint Distribution System, or LMDS – can carry very large quantities of data and make more efficient use of bandwidth than traditional cellular systems.

CellularVision also has a neat way of avoiding the problems of receiving cellular signals in a city like New York. Data are sent to customers in two steps. First, an omnidirectional antenna sends out a cloud of microwave signals above the buildings; a second antenna relays the signal by shooting it down the city's streets.

The signals get to users by means of a flat satellite dish, under seven inches square, which can be stuck on an outside wall or the inside of a window. This antenna picks up the signals that bounce off buildings on the other side of the road.

When a customer pays a $200 installation fee for internet access, a CellularVision engineer puts the antenna in the right place, wires it up to a set-top box that converts the incoming signals and installs a high-speed modem inside the customer's PC. The monthly subscription is $50 for residential and $80 for business customers.

At present, the system allows users to download data from the internet at 500 kilobits a second. To send information, they have to phone using their computer's existing modem. Unlike other parts of the US, this is not free in New York but is at least untimed.

CellularVision first offered the service two weeks ago. At $250 for a quadrupling of download speed, it may not sound compelling. But Bossart says the company is developing a modem for launch this year which will be able to download at 40 megabits a second – more than 1,000 times faster than a standard modem.

The next step will be to develop a service allowing customers to use the cellular link for uploading data too.

"If you can go one way, then by definition it's reciprocal," he explains.

The service is interesting because many of the applications that people assume are part of the never-never future – such as really good videoconferencing, video on demand, online games or high-speed data access for business – can be implemented immediately.

The long-term effects of CellularVision's new system could be more dramatic still. At present, it is received wisdom that the leading candidates to build the broadband networks that will constitute a superhighway will be telephone and cable companies, because few other organisations have telecoms infrastructure already in place.

But most of the wires under city streets will need to be upgraded before they can carry large quantities of data. The cost of this upgrading will be so high it is doubtful whether cable or phone companies will have the cashflow to fund the necessary investment.

Cellular systems like the one in New York are different. To be able to serve customers, they need only a few base stations, rather than wires under the street so their cost per home passed is a fraction of that of cable internet service.

Terrestrial cellular systems will probably have less of a cost advantage in the outer suburbs or in remote, sparsely populated areas. But telephone and cable companies will be affected too.

In Utah, the cheapest way to get broadband internet access in five years will probably be via Teledesic, a cellular data service backed by Bill Gates and Craig McCaw which proposes to build a network of base stations on satellites orbiting the earth. The result is that phrases like "superhighway" and "infobahn" look less and less appropriate. They hark back to the age of the train.

The access technology that wins will look more like the air travel industry where you build an airport at each end of the journey, instead of laying rails from departure point to destination.

tim.jackson@pobox.com

Travel Update · Roger Bray

Check-in transit

Hilton guests in the US will soon be able to check in on the courtesy bus from the airport. They will swipe a credit or loyalty card through a mobile data terminal and, when they arrive, a staff member will greet them with their room keys. The system is operating at the chain's Newark Airport hotel in New Jersey, where it has been tested on seven shuttle vans. Hilton hopes to extend it to other locations by the end of the year. Introduced in co-operation with Geotek Communications, it is part of a technology package which also allows vehicles to be tracked, so that when customers telephone for transport from airport terminals, they can be picked up by the shuttle closest to them.

Consulate closure

The British consulate in Zurich is to close on September 30 following a Foreign Office review. Trade promotion and inward investment work will be carried on at the embassy in Berne. An honorary consul, to be appointed in Zurich, will process notarial acts, such as certifying contracts and will provide assistance to UK citizens, such as the issuing of emergency passports.

Paris air shuttle

Paris has a new airport shuttle. Minibuses pick up passengers at Charles de Gaulle and Orly and drop them at city centre hotels. On the return journey to the airports they drop customers at the nearest terminal entrance to their check-in desks. The fare for single travellers is FFr120. You can book in advance (0033 145 38 55 72). The service runs every day. The only snag is that although it starts running at 0600 it shuts down at 1800.

Hotel facelifts

Two Copenhagen hotels are getting facelifts costing a total of $20m. They are the 265-room Royal, overlooking the Tivoli Gardens and Denmark's largest, the 542-room Scandinavia. Rooms will be refurbished and the latter's conference facilities will be upgraded. Both are part of the Radisson SAS chain. Regional director for Denmark, Frank Fiskers, says: "The renovation project will give is two practically new hotels". The group promises to preserve the Royal's Danish Modern style.

Ireland in clover

Dublin's smart, recently refurbished hotel, The Clarence, is offering a two-night special package until October 31. Two sharing get bed, full Irish breakfast, a dinner and – though it's probably not a good idea to plan an early meeting the following day – a "literary pub crawl". The price is I£216 aperson. That compares with the lowest published room rate of I£168 per night – without breakfast.

Bangkok bargain

The Oriental in Bangkok, haunt of Joseph Conrad, Somerset Maugham and Graham Greene, suddenly looks an extraordinary bargain. Thailand's downward floating currency and a special summer business travel package have combined to cut room rates there, in sterling terms, by around 40 per cent. A single room at the hotel on the Chao Phraya river, where there are roughly four members to staff to each guest, will cost 4,500 baht until the end of September, against the usual 6,400 baht.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	26	28	30	30	31
Hong Kong	27	27	27	27	28
London	25	25	24	24	24
Frankfurt	25	26	27	26	24
New York	28	30	29	28	27
L. Angeles	25	27	29	29	28
Milan	26	26	28	27	23
Paris	24	26	27	25	24
Zurich	19	23	24	24	19

Information supplied by Meteo Consult of the Netherlands

Maximum temperature in Celsius

Chips and charm

Nigel Page looks at Taipei where dynamic development co-exists with tradition

Taipei is an unmistakably Chinese city. It is a beguiling paradox, where in spite of the awesome economic changes under way (ROC, the joke goes, should stand for Republic of Computers rather than Republic of China), there is a lingering pride in tradition which strikes even short-term visitors.

Take a 15-minute taxi ride from downtown and, tourists aside, the beautiful Lungshan Temple is a world away from late-20th century Asian boomtown mentality. Taipei may be polluted, congested and ersatz-Eurotrash in places, but below the surface it remains one of Asia's most fascinating business destinations. Hong Kong with secret charm.

The abiding impression is of a city reinventing itself as a sleek business destination little by little. Taipei's business and financial communities are on the verge of significant developments, as the government's drive for liberalisation and deregulation gathers momentum.

Dr C.V. Chen, senior partner of leading local lawyers and business consultants Lee & Li, explains: "The key change here is that Taiwan is in the process of applying for entry to the World Trade Organisation.

"So in preparation for this, we are seeing the liberalisation of economic activities which were previously closed to foreign companies."

This programme, geared to facilitate WTO entry, encompasses infrastructure projects, telecoms and increased access to Taipei's capital markets for foreign financial institutions.

WTO entry, however, will not take place before China is admitted, underlining the intimate – and fraught – relationship between the countries. Taipei has watched Hong Kong's return to China especially closely. It is a litmus test of what might be to come.

Taiwan is already the second biggest investor in China (after Hong Kong), with more than 30,000 Taiwanese companies having invested more than $30bn to date.

Taiwan's proximity to China explains the presence of such a well-established foreign business community, and Taipei has a thriving expatriate scene. Foreign investments, which have been hit by high local costs and red tape, appear to be staging a recovery.

Between January and April this year, they rose a year-on-year 17 per cent, totalling $594m in the first quarter. Foreign investment in the electronics and electrical appliance industries led the way, accounting for $208m – or 35 per cent. The leading investors into Taiwan continue to be Japan, followed by the US and Europe.

Business meetings follow Greater Chinese lines, with the usual mutual respect shown to business cards (preferably translated into Chinese on the reverse). Avoid using red ink (unfriendly), accept that laughter often hides embarrassment, allow your host to bring the meeting to a close and, if offered an invitation to a contact's home, take a gift.

Etiquette, however, is not obsessively observed – Taiwan is relatively easygoing and tolerant of foreigners, as Tom McGowan, for 15 years a Taipei resident and consultant with Russin & Vecchi International Legal Counsellors, points out.

"In business dealings, the Taiwanese are very much two plus two equals five – both parties should expect to put the same amount down on the table and both should go into the relationship expecting to make money."

When it comes to business dealings in Taiwan, another expatriate executive stresses that the Taiwanese do not typically place such emphasis on saving face as do other Asian business people.

And David Lederman, a consultant with IP advisers Wang & Wang, observes: "This is an extremely friendly business environment – the Taiwanese are used to dealing with foreigners, they expect foreigners to say and do culturally unacceptable things."

Lederman underlines the need to cultivate local contacts in Taiwan and, ideally, to select a locally responsible agent to run business operations.

Taipei, situated in a basin surrounded by mountains and bisected by rivers in the north of Taiwan, is short on space. It is easy to forget that the population is little more than 2.8m residents.

The roads are packed and traffic jams can wreck carefully planned schedules. In time, the situation will ease – the first two of Taipei's mass rapid transport lines are now open.

Taxi fares are relatively painless – charges start at NT$65 ($2.40) for the first 1.65km. Few drivers will understand directions in any language except Chinese – hotel staff will write out addresses in Chinese.

There is no central business district in Taipei – at first impression, the sprawling mass of streets reflects an idiosyncratic evolution. This charming feature will appeal more to the tourist, however, than to the busy business visitor.

Navigating Taipei can be confusing, although once the crucial north/south, east/west road grid is mastered it is relatively straightforward. Addresses all specify where the buildings lie along these axes.

Taipei: like Hong Kong with secret charm

Checking out Taipei's hotels

Accommodation in Taipei: Five-star hotels in Taipei include the Ambassador, where rooms cost from NT$4,300/£93 (00 88 62 551), the Ritz, where a standard room costs NT$4,200/£91 (00 88 6 2597 1234), the Hilton, where rooms cost from NT$4,100/£89 (00 88 6 2 311 5151), and the Rebar Holiday Inn Crown Plaza. At the Holiday Inn rates will vary depending on the time of year, but rooms are usually priced around NT$3,900/£85 (00 88 62 763 5656). The Taipei Fortuna Hotel is more competitively priced – a single room costs NT$2,850/£62 (00 88 6 2 563 1111). All prices exclude tax, which adds 10 per cent.

Staying healthy: Visitors should check they have had vaccinations for polio and tetanus within the past 10 years, and should also be immunised against typhoid.

A weight off the passenger's mind

A revolutionary baggage handling system offering enhanced security and substantial energy savings is one of the innovative features of a £23m redevelopment at Jersey Airport, *writes Philip Jeune.*

Developed by Matflex of France, the Telebag baggage system automatically sorts and screens all bags as it moves them from the check-in desk. They are carried in destination-coded carts driven by a linear motor from an induction track, similar to a system used on car production lines.

Requiring 20 per cent less space than a conventional baggage conveyor belt, the Telebag system is also saving Jersey Airport up to 30 per cent in energy costs.

Antoni Miziolek of project managers MDA Group, says: "It only draws power when it is in use. When there are quiet periods between flight movements it demands no energy whatsoever. It's a state-of-the-art system that pushes baggage handling into the 21st century."

Originally built in 1937, Jersey Airport handles up to 2m passengers and 150,000 aircraft movements each year, making it one of the busiest terminals in the British Isles. About 35 per cent of the passengers flying in and out of the airport from some 89 destinations are business travellers.

Airlines' joint ticket office

The first real benefit of airline alliances was seen last week with a new type of airline ticket office opening in London's Conduit Street, *writes Gillian Upton.*

It is shared by four airlines – United, Air Canada and Lufthansa, which are in already, and SAS which will be in by October.

They are the main partners in the Star Alliance, one of the most powerful aviation groupings. The other partners – Varig and Thai – are staying put as their ticket offices are nearby.

The opening reflects efforts this year to consolidate various aspects of the partners' combined ground facilities so passengers can enjoy a seamless journey when flying on any partner airline.'

Already operating in three locations are shared check-in desks between some of the partners (all in the US). Any headway at Heathrow will depend on the opening of Terminal Five: British Airways will move in there, leaving Terminal One for the Star Alliance.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**

Acatos & Hutcheson 4p
Airflow Streamlines 6p
Banco Real 10.25% Nts 1997 $512.50
Basque Country 3½% Bds. 2005 Y32,500
Bett Brothers 1.9p
Bradford & Bingley Building Society FRN. 1999 £161.44
British Gov't. U.K. 6¾% Bds. 2001 $67.50
Burmah Castrol $1.009
Fountain Forestry Hldgs. 0.92p
Goldsborough Healthcare 1.4p
Hiscox 2p
Japan Airlines 8% Bds Y800,000
London & Ass. Props. 0.73p
Lonrho Finance FRN 1997 $179.31
Morgan Stanley Equity (C.I.) Pf Equity Rd Quarterly-Pay to Sainsbury 5.586p
Nippon Telegraph and Telephone 9% Nts 1999 $900
Plasmon 1p
Property Partnerships 6p
Prospect 3 Class A Nts 2006 £1,625.03
Texas Instruments $0.17
Tokyo Gas 5.5% Nts 1998 $275.00
United Drug IR3p
Wells Fargo Sb FRN July 1997 $154.83
Yokohama (City of) 6.5% Gtd Bds 2005 $65.00

■ **TOMORROW**

British Government Exchequer 12% 1999/2002 £6.00
Do Treasury 4⅛% Index-Linked 2030 £23495.00Do Treasury 11¾% 2003/07 £5.875
Caffyns 7.5p
Cox Insurance Hldgs 2.1p
Furukawa 4.35% Nts 1997 Y435000
Japan Airlines 5.5% Bds July 2003 Y550000
Do 6⅝% Bds 2003 $66.25
Kyushu Electric Power 6⅜% Bds 2003 $318.75
Locker (Thomas) 0.7p
MEPC 5.25p
National Australia Bank A$0.45
Rolfe & Nolan 3.8p
Societe Generale Equity (C.I.) High Yield Pf Equity Rd 18.491p
Sweden (Kingdom of) 13.5% 2010 £67.50
Taverners Tst 0.2p
Tokyo Tatemono 4.9% Bds 1998 Y490000
York Waterworks 8.6p
Do 'A' 8.6p

■ **WEDNESDAY JULY 23**

African Development Bank 11.25% Bds 2001 £562.50
European Colour
Fujitsu 3.95% Bds 1997 Y395000
ITOCHU FRN 1997 Y19373
Le Riches Stores 15p
Luminar 4.67p
YTB Finance (Aruba) A.E.C. Gtd Sb FRN 2003 $1625.87

■ **THURSDAY JULY 24**

Fleming Continental European Inv Tst 4p
Mid-States 0.24p
Nippon Telegraph and Telephone 9¼% Nts 1997 $925
Ptarmigan Intl Cap Tst
Redland US Funding $362.50
Christian Salvesen 5.35p
United Utilities 11.625% Bds 2001 £116250

■ **FRIDAY JULY 25**

Airsprung Furniture Group
Allied Domecq 9.44p
Anglo American Corpn of South Africa R5.40
Avon Rubber 6.15p
Bankers Tst New York Corpn $1.00
Bristol United Press 10p
British Government Treasury 13¾% 2003/07 £6.875
Brown (N) 4.8p
Burton Group 1.4p
Cambridge Water 6p
Camellia 24.5p
Capitol Group 3.25p
Chamberlin & Hill 5.5p
Clyde Blowers 2.67p
CPC Intl $0.41
Debenhams 7¼% Unsec 202/07 £3.625
Do 7¾% Unsec 2002/07 £3.875
Dee Valley 12.5p
Do Non-Vtg 12.5p
Everards Brewery 5% (3.5% net) Cm Pf 2.33p
General Electric $0.26
Glenmorangie 'A' 10.175p
Great Portland Estates 6.1p
Hazlewood Foods 7.5% (5.25% net) Cm Partg Pf 4.375p
Highlands & Lowlands Bhd M$0.135
Housing Securities 8⅝% 2019 £4.1875
Hydro-Quebec 10.875% Debs. Series HB, Sept 29 1998 $487.50
Leicester City Council 7% Ln 2019 £3.50
London Scottish Bank 0.975p
Molex $0.015
Do Class 'A' $0.015
Morgan Stanley Equity (C.I) Pf Equity Red Quarterly to Royal & Sun Alliance Series A 5.586p
Murray Income Tst 2.85p
Osborne & Little 12p
Riverview Rubber Estates Bhd M$0.17
Sainsbury (J) 8.8p
Salford (City Council) 7% Ln 2019 £3.50
Solid State Supplies 2p
3i Group 5.7p
Toy Options 1.2p

■ **SATURDAY JULY 26**

British Government Exchequer Treasury 2.5% Index-Linked Stk 2016 £23568.00Do Treasury 7¾% Loan Stk 2012/15 £3.875
Sahaviriya Steel Industries 3.5% Cv Bds 2005 $35.00

■ **SUNDAY JULY 27**

Housing Finance Agency 2% Index-Linked Stk 2008 IR£1728.00
Ireland (Republic of) Exchequer 8.75% Bd 1997 IR£4.375

UK COMPANIES

■ **TODAY**

COMPANY MEETINGS:
Cox Insurance, The Old Library, Lloyd's, One Lime Street, E.C., 12.00
Cranswick, Rowley Manor, Little Weighton, Beverley, E.Yorkshire, 11.30
INVESCO Asia Tst, 11 Devonshire Square, E.C., 12.00
Mid-States, Harrington Hall, 5-25, Harrington Gardens, S.W., 3.00
Porter Chadburn, Durrants Hotel, 26, George Street, W., 2.00
Sterling Industries, Cayzer House, 1, Thomas More Street, E., 12.30
West 176 Enterprises, 12-20, Camomile Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Crest Packaging
PSIT
Sketchley
Uno
Interims:
Porvair

■ **TOMORROW**

COMPANY MEETINGS:
Anglian Group, Horsford Manor, Holt Road, Horsford, Norwich, Norfolk, 2.30
Caffyns, Hydro Hotel, Mount Road, Eastbourne, 2.30
Carpetright, Amberley House, New Road, Rainham, Essex, 11.00
David Glass Associates, Hendon Hall Hotel, Ashley Lane, N.W., 3.00
Foreign&Colonial Private Equity Tst, Exchange Hse, Primrose St. EC, 12.15
Great Portland Estates, Cafe Royal, Regent Street, 10.30
Hambros, 41, Tower Hill, E.C., 12.00
INVESCO Korea Tst, 11, Devonshire Square, E.C., 12.00
Proteus Intl, Chartered Accountant's Hall, Moorgate Place, E.C., 12.00
Rolfe & Nolan, Chartered Accountant's Hall, Moorgate Place, E.C., 12.00
Staveley Industries, The Tower Thistle Hotel, St Katherines Way, E., 12.00
Wyndeham Press, 135, Bishopsgate, E.C., 10.30
BOARD MEETINGS:
Finals:
Barbour Index
Copyright Promotions
GGT
H & C Furnishing
Meatmore Abbey
Menvier-Swain
Mitie
Oglesby & Butler
Stagecoach
WF Elec
Interims:
St. Modwen Properties
Shani

■ **WEDNESDAY JULY 23**

COMPANY MEETINGS:
Anglian Water, Performing Arts Centre, Hinchingbrook School, Huntingdon, 11.30
British Steel, Westminster County Hall, S.W., 11.00
Caledonia Invs, Cayzer House, 1, Thomas More Street, E., 12.15
Chloride Group, The Royal Aeronautical Society, 4, Hamilton Place, W., 11.00
City of London PR Group, The City of London Club, 19, Old Broad Street, E.C., 12.00
Courtaulds, London Marriott Hotel, Duke Street, W., 10.45
De La Rue, The Savoy Hotel, Strand, W.C., 12.00
INVESCO English & Inv Tst, 11, Devonshire Square, E.C., 12.00
Jasmin, Sellers Wood Drive, Bulwell, Nottingham, 12.00
Masthead Insurance Underwriting, 41, Tower Hill, E.C., 11.00
Osborne & Little, 49, Temperley Road, S.W., 11.00
Scottish Power, Royal Concert Hall, Sauchiehall Street, Glasgow, 11.00
Victory Corporation, Exchange House, Primrose Street, E.C., 10.00
Volex Group, The Copthorne, Clippers Quay, Salford Quays, Manchester, 11.30
Wellman, Grand Hotel, Colmore Row, Birmingham, 11.00
BOARD MEETINGS:
Finals:
Matthew Clark
Pace Micro Tech
Interims:
Bullough
Masthead Insurance
Reuters
Spargo Consulting

■ **THURSDAY JULY 24**

COMPANY MEETINGS:
Boots, Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, S.W., 11.00
Brockhampton Hldgs, Brockhampton Springs, West St, Havant, Hants, 12.30
BTP, SBC Warburg Conference Centre, 1, Finsbury Avenue, E.C., 12.00
Clayhithe, River Sports & Social Club, Mandeville Road, Aylesbury, Bucks, 11.00
Critchley Group, 1, Finsbury Avenue, E.C., 9.30
Drummond Group, Norfolk Gardens Hotel, Bradford, 10.30
Geared Income Inv Tst, City of London Club, 19, Old Broad Street, E.C., 3.30
Gerrard Group, Atrium Building, Cannon Bridge, 25, Dowgate Hill, E.C., 12.00
Hogg Robinson, Selfridge Hotel, Orchard Street, W., 3.00
London Merchant Securities, Carlton House, 33, Robert Adam Street, W., 12.00
Mid Kent Holdings, Great Danes Hotel, Hollingbourne, Kent, 2.30
Murray European Inv Tst, 20, Farringdon Road, E.C., 2.00
Norcros, Chartered Accountant's Hall, Moorgate Place, E.C., 11.00
Northern Foods, Jarvis Grange Park Hotel, Willerby, near Hull, 12.30
OMI Intl, 1-11, Hay Hill, W., 10.00
PEX, European Gallery of Art, 8, Grosvenor Place, S.W., 11.30
Pilkington, Pilkington Technology Centre, Hall Lane, Latham, Lancashire, 11.30
Portsmouth & Sunderland Newspapers, Echo House, Pennywell, Sunderland, 12.30
Railtrack, The Barbican, Silk Street, E.C., 11.00
Renold, Renold House, Styal Road, Wythenshawe, Manchester, 2.30
Scapa, County Hotel, Yew Tree Drive, Blackburn, 12.00
Scottish Hydro-Electric, Perth City Hall, St Johns Square, Perth, 11.00
Siebe, The Dorchester Hotel, Park Lane, S.W., 12.00
Shanks & McEwan, Glasgow Hilton, 1, William Street, Glasgow, 11.00
TR Property Inv Tst, 3, Finsbury Avenue, E.C., 12.00
Vodafone, Waldorf Hotel, Aldwych, W.C., 11.00
Wynnstay Properties, The Royal Automobile Club, 89, Pall Mall, S.W., 12.00
BOARD MEETINGS:
Finals:
Banks (SC)
Bolton
Delyn
Euclidian
Eve
Interims:
Cookson
Total Office

■ **FRIDAY JULY 25**

COMPANY MEETINGS:
Blacks Leisure, The Howard Hotel, Temple Place, W.C., 11.00
Chamberlain & Hill, Chuckery Foundry, Walsall, 12.30
Cropper (James), Burneside Mills, Kendall, 10.30
Danka Business Systems, Lanesborough Hotel, Hyde Park Corner, S.W., 11.00
Electrocomponents, The Lanesborough Hotel, 1, Lanesborough Place, S.W.,
Full Circle Industries, 117, The Headrow, Leeds, 10.30
Hicking Pentecost, 19, Stanwell Road, Penarth, Vale of Glamorgan, 12.00
Highams Systems Services, 20, Old Bailey, E.C., 11.30
Hyder, The Cardiff Marriott Hotel, Mill Lane, Cardiff, Wales, 2.00
National Grid, International Conference Centre, 1, Broad Street, Birmingham, 11.00
Southern Electric, Poole Arts Centre, Kingland Road, Poole, Dorset, 12.00
Waddington, Trinity House, Tower Hill, E.C., 11.00
BOARD MEETINGS:
Interims:
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Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements

OPENINGS

LONDON
A rare opportunity has arisen for the Tate Gallery to show over 60 works by Piet Mondrian (1872-1944). The display, made possible by the temporary closure of the Gemeentemuseum in The Hague, provides the first opportunity for several decades to see a representative selection of Mondrian's paintings in the UK. The exhibition runs from Saturday until the end of November.
At the Queen Elizabeth Hall in London, Lloyd Newson presents another provocative dance-theatre piece with his DV8 company. The first night is Wednesday. Entitled *Bound to Please* (right), you may draw your own conclusions about what you will see.

Martin McDonagh, award-winning author of *The Beauty Queen of Leenane*, now makes it the first third of a Leenane trilogy, opening on Saturday at the Royal Court. The second and third parts are called *A Skull in Connemara* (a phrase lifted from Beckett's *Waiting for Godot*) and *The Lonesome West*.

ASPEN
Thomas Adès's *Powder Her Face* (1995) is well on its way to becoming the most widely-performed of new British operas. After its recent success in Germany, it receives its US premiere in this Rockies resort on Friday. The composer conducts a staging by Edward Berkeley, with Maire O'Brien in the central role of the Duchess of Argyll.

BAYREUTH
The festival opens on Friday with *Tristan und Isolde*, starring Siegfried Jerusalem and Waltraud Meier. There are no new productions this year. *Tristan* and *Meistersinger* are conducted by Daniel Barenboim (right), and the main attraction in *The Ring* remains John

Tomlinson's Wotan.

DARTINGTON
The Dartington International Summer School celebrates 50 years of music-making in south-west England with five festive weeks of workshops and performances, starting on Saturday. This year's highlight is a production of the first full opera to be composed in English: Louis Grabu's Restoration allegory *Albion and Albanius*.

CHICHESTER
Julie Christie (right), who made her British stage debut only two years ago, returns to the stage this week in the Chichester Minerva Studio. The play is *Susanna Andler*, by Marguerite Duras, as translated by Barbara Bray. The director, as in Christie's 1995 appearance (in Harold Pinter's *Old Times*) is Lindy Davies. The production opens tomorrow.

A feast of festivals far away from it all

There is a mixed bag of music in Finland this summer, says **Andrew Clark**

Summer in Finland means midnight sun, escape from the city, communion with nature. It also means festivals – around 50 of them, in a country with a smaller population than London. Unlike the rest of the year, when Finnish culture revolves around Helsinki, July and August find the arts thriving amid the lakes and forests to the north. There is a theatre festival in Tampere, a film festival at Sodankyla above the Arctic Circle, jazz in Pori, brass music in Lieska.

And there's Savonlinna and Kuhmo. The two could hardly be more different – Savonlinna for opera, Kuhmo for chamber music; Savonlinna for crowds, Kuhmo for connoisseurs; Savonlinna for tradition, Kuhmo for adventure. But to compare them is unfair. Like all the best festivals, each draws its character from a potent visual setting, and each depends on strong community involvement. Savonlinna's modern renaissance dates from the 1970s, when Martti Talvela was director. Kuhmo is the brainchild of Seppo Kimanen, cellist of the Sibelius Quartet, who was just 21 when he hatched his first festival in 1970.

Savonlinna and Kuhmo complement each other so perfectly that the canny festival-goer juggles the diary to combine the two. It's best to tackle Savonlinna first, before heading north for the rarefied atmosphere of Kuhmo: *anything* after Kuhmo is a let-down. This year there was added incentive to visit both festivals, because each premiered important new works by Einojuhani Rautavaara, Finland's senior living composer.

Set in a popular holiday region, Savonlinna draws audiences of more than 2,000 a night to the courtyard of Olaf's Castle, a rugged 15th century bastion with spectacular open-air acoustics. There's a canopy of sorts, but it doesn't keep out the wind or the bird-cries: the Royal Opera's *Peter Grimes* will feel at home when it visits next year.

Wagner also suits the venue – no more so than in *Tannhäuser*, which offers a showcase for the magnificent Savonlinna chorus. This summer's *Tannhäuser* was a revival; *Cav and Pag* was new. Neither really worked. The festival is trying to shake off its reputation for conservatism by turning to the younger generation of Finnish stage directors, but none has the experience in opera.

It certainly showed in *Tannhäuser*. After last summer's torrent of criticism, little remained of Juha Hemánus's staging, save for some bizarre designs: a red Carmen outfit for Venus, a scarecrow Madonna, a collection of plumed hats and sashes for the Wartburg courtiers. Characterisation was minimal, and there was no Venusberg bacchanale. The music fared better: Raimo Sirkiä's Tannhäuser and Elisabeth Meyer-Topsoe's Elisabeth sang with unfailing tonal beauty, without dislodging Matti Salminen's Landgrave as audience favourite. In Leif Segerstam's hands, the Paris version sounded rich but vulgar.

No such problem in *Cav and Pag*: Eri Klas conducted with Karajanesque flair (why hasn't the UK heard more of him?), and Kaludi Kaludow was a sensational Turiddu – the only truly Italianate voice all evening. The production was entrusted to Kari Heiskanen, a popular theatre director who made his name as a stand-up comic on Finnish television. It was a shocker of mesmerising showmanship: swirling chorus-choreography, extreme emotional volatility, interludes of complete stillness.

The two halves of the evening shared the same sleazy modern setting. *Cavalleria Rusticana* was exhilarating, thanks to Heiskanen's crowd control and Juha Kotilainen's Alfio – a total original, part rabble-rouser, part rock star. *I Pagliacci* was an anti-climax, too over-produced. But Heiskanen is a name to watch.

Kuvasuomi Ky Matti Kolho

Malgorzata Walewska with Juha Kotilainen as Alfio in 'Cavalleria Rusticana'

The five-hour drive north to Kuhmo offers space for mental adjustment. When you arrive, it seems like you've reached the middle of nowhere: there's a crossroads, a marketplace, a wooden church and little else.

Kuhmo focuses on the music rather than the performers. The programme runs from 11 in the morning to 11 at night, and has a habit of turning visitors into music junkies. You're reluctant to skip the next recital in case you miss yet another revelatory interpretation or repertoire discovery. In every concert I heard last week, there was something to confound accumulated preferences and prejudices. Ears were opened, the mind was receptive – such is the uncluttered peacefulness of Kuhmo and the mix-and-match variety of Kimanen's programming. Many have tried to copy his festival formula, but they don't have Kuhmo's sense of isolation, the fresh salmon or the sauna parties.

"Venice, Beethoven and America" were this year's touchstones, treated in undoctrinaire fashion. George Crumb's Sonata for solo cello was framed by Beethoven piano sonatas; Ives rubbed shoulders with Prokofiev and Bartók. The greater the contrast, the harder the music hit home.

The biggest surprises came in American repertoire. Who would have imagined that Elliott Carter could sound like a New England neo-Romantic? Lucy Shelton sang his early 1940s settings of Whitman and Robert Frost – beautifully crafted but worlds away from the complex, profound Carter we know. John Corigliano's Violin Sonata bubbled with ideas, spunky rhythms, quixotic charm: enormously appealing, and a suitable match for the go-for-it virtuosity of its interpreters, David Kim and Raija Kerppo.

William Purvis belied Milton Babbitt's reputation for "difficult" music by playing his warm, humorous, unaccompanied *Around the Horn*. The Lions Gate Trio made poetry of the crazy, hazy cross-melodic lines of Ives's early piano trio, and handled Beethoven's "Geister" trio with rare classical restraint. Tsuyoshi Tsutsumi brought old-master musicianship to the Crumb cello sonata, Bach-like in its simplicity, soulfulness, songfulness.

Not everything matched this level of inspiration. Ursula Oppens's over-pedalled *Hammerklavier* emerged as a blurred barrage of notes. The Bartók Quartet ironed out the edges of the composer's first, second and fifth quartets: so delicate, so cultured, and yet after 40 years together these players have nothing left to discover in the music or each other. And even Scott Kluksdahl's committed performance could not hide the dross in Ralph Shapey's painterly cello sonata.

Exactly how Kimanen compiles programmes for 94 concerts spread over two weeks, juggling 250 musicians and 250 locally recruited volunteers, is a mystery. Three days in Kuhmo is too short. I wanted to stay to hear Walter Piston's piano quintet, to sample John Harbison's chamber music, to listen to the brilliant fiddle-playing Kuusisto brothers, to hear American flute virtuoso Carol Wincenc in Ravel's Introduction and Allegro.

And I felt like taking the beautiful Kuhmo concert hall, with its high ceilings and open foyer, and plonking it down somewhere nearer home. But the spirit of Kuhmo – its variety, its unpredictability, its humour – cannot be transplanted.

A week in Finland – and not a note of Sibelius to be heard. With a few hours to spare in Helsinki between flights, the chance to visit Ainola, the composer's home, was too good to miss. Sibelius moved to Ainola in 1904 and died there 53 years later. Everything from the Third Symphony onwards was composed in these surroundings of peaceful, wooded isolation. Apart from running water, which he refused to install, everything is much as he left it.

Unlike some composer-houses, they don't play Sibelius as background music at Ainola – thank goodness. It's not necessary, because the atmosphere captures the source of the composer's inspiration – the landscape of forest and lake, the legends and patriotic ideals which lie behind the terse, meditative spirit of all great Finnish music.

Proms/**Richard Fairman**

BBC series starts with fighting spirit

Anyone looking for a real bull market should make for London's Royal Albert Hall. The BBC Promenade Concerts' stock has never been higher: the UK's biggest music festival is going into its second century with prospects as strong as at any time in its history.

Maybe there have been more exhilarating first nights than the deeply-felt performance of Beethoven's *Missa Solemnis* which opened the 103rd season on Friday, but the Proms have never needed hype. At a time when other concert halls are doing somersaults to win converts to classical music, it is worth seeing how the Proms do it while keeping their feet on the ground.

The key is a reputation for accessibility that no public relations company could hope to manufacture. Friday's audience looked as heterogeneous as ever and the opening concert was relayed live on Radio 3 and BBC2 television. The BBC is not bashful any more about what it does for the Proms, which is probably a good sign. Any talk at BBC headquarters of downsizing this festival and there will be an army of Prommers at the barricades.

That is the kind of fighting spirit we want to start the series, so the Proms might be really ambitious next year and try a 20th century choral work or even a premiere on opening night. Some period instrument performers have captured a white-hot evangelical drive in the *Missa Solemnis*, but Bernard Haitink belongs to the old school. His Beethoven breathes more deeply and speaks of a long acquaintance with the music that has no truck with surface excitement.

For the first concert, this gave one important pointer to the rest of the season. The BBC orchestras and choirs bear the brunt of the work (the Proms are a good shop-window for the BBC's undervalued orchestras) and it is a pleasure to encounter them in such cultivated music-making from the start. Under Haitink's temperate direction, the BBC Symphony played with the warmer sound of a central European orchestra and the BBC Symphony Chorus, fortified by the professional BBC Singers, lived up to its rank as probably the best of London's amateur choirs.

Karita Mattila's soaring Scandinavian soprano led an able quartet, with Catherine Wyn-Rogers and Herbert Lippert the alto and tenor, and Anthony Michaels-Moore more a baritone than a fully-fledged bass. In its hushed devotional moments this performance probably came as close to the heart of the work as any so-called "authentic" rendering.

On Saturday, the Proms provided one of those evenings of discovery they do so well. The hall was about half-to-two-thirds full, which is about 3,500 people, and I doubt there were many in the audience who had heard Schubert's *Die Verschworenen* before. This light opera, flirting with what was later to become the Viennese operetta style, is an adaptation of Aristophanes's *Lysistrata*, which turns a bawdy farce into Austrian charm.

Even at less than full stretch, Schubert could not help being himself and the music overflows with beautiful melodies and a dexterity with harmony that lesser composers would kill for. There was a well-chosen cast, headed by soprano Hillevi Martinpelto and the characterful David Wilson-Johnson, together with soprano Lisa Larsson and mezzo Susan Bickley. The Orchestra and Choir of the Age of Enlightenment performed with the lightest touch under the live-wire Nicholas McGegan, apparently unnerved by his swooping at them from the podium. Despite what Spielberg may say, the conductor as pterodactyl is not yet an extinct species.

Repeat broadcasts on BBC Radio 3 today and tomorrow.

INTERNATIONAL ARTS GUIDE

■ AVIGNON

THEATRE
Avignon Festival
Tel: 33-4-9014 1414
● Amphitryon: by Molière. One of two productions brought by Anatoli Vassiliev as part of a Russian season. Cast includes Valérie Dréville; at the Eglise des Célestins; Jul 21, 22, 23, 25, 26
● Chambre d'Hôtel dans la Ville de Nn: adapted from Gogol and directed by Valeri Fokine; at the Usine Volponi; Jul 21, 22, 23, 25, 26
● Chant pour la Volga: The Battle of Stalingrad. Written, directed, designed, and performed with puppets by Rézo Gabriadze: at the Chapelle des Pénitents Blancs; Jul 24, 25, 26
● K.I. du "Crime": adapted from Dostoyevsky's novel by Daniil Guink. Kama Guinkas directs; Oksana Missina stars; at the Usine Volponi; Jul 21, 22

■ LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● Amsterdam Baroque Orchestra and Choir conducted by Ton Koopman in music by Bach; Jul 21
● BBC National Orchestra of Wales: with cellist Steven Isserlis, conducted by Tadaaki Otaka in works by Mendelssohn, Elgar and Bruckner; Jul 22
● BBC Symphony Orchestra: conducted by Andrew Davis in the world premiere of *Sea-Change* by Iannis Xenakis, and works by Prokofiev and Strauss. With pianist John Lill; Jul 23
● *Paul Daniel conducts the* Chorus of Opera North and the English Northern Philharmonia in Stravinsky's *Petrushka* and a semi-staged London premiere of Korngold's *Violanta*, directed by Nigel Lowery; Jul 24
● Sir Peter Maxwell Davies conducts the BBC Philharmonic in the world premiere of his new work *Sails in St Magnus I*, inspired by his friend the poet George Mackay Brown. Vassily Sinaisky conducts works by Beethoven and Shostakovich. With pianist Stephen Kovacevich; Jul 25
● BBC Philharmonic: conducted by Richard Hickox in works by Britten, Grainger, Elgar and Jonathan Harvey, the world premiere of whose Percussion Concerto is performed with percussionist Evelyn Glennie; Jul 26

DANCE
London Coliseum
Tel: 44-171-632 8300
● The Kirov Ballet: Swan Lake – casts vary; Jul 21, 22, 23, 24
● The Kirov Ballet: Don Quixote – *a highlight of the month-long* season; casts vary; Jul 25, 26

■ NEW YORK

Lincoln Center Festival 97
Tel: 1-212-875 5030
CONCERTS
● Expresiones Latinas: seven-day festival of Latin and South American music, featuring musicians from Brazil, Mexico, Colombia, Cuba and Venezuela; at the Avery Fisher Hall; Jul 21-27
● Pomerium: a cappella early *music ensemble presents a pair* of concerts designed to complement the festival's presentation of Pfitzner's opera. "Before the Council of Trent", Jul 20, features music by Palestrina and his predecessors; "After the Council of Trent", Jul 27, places his music alongside that of his contemporaries; both take place in the Alice Tully Hall
● The Intimate Pfitzner: musicians of the Center's Chamber Music Society, the Orchestra of the Royal Opera House and the NY Philharmonic join forces to present this evening of chamber music and songs by Hans Pfitzner, at the Alice Tully Hall; Jul 23

DANCE
● The Royal Ballet at the Metropolitan Opera House: *Cinderella*. Revival of Sir Frederick Ashton's ballet, set to Prokofiev's score; Jul 23, 24, 26
● The Royal Ballet at the Metropolitan Opera House: Ravel Mixed Programme, with choreography by Ashton, Macmillan and Christopher Wheeldon; Jul 22, 23, 25

OPERA
Palestrina: by Hans Pfitzner – the Metropolitan Opera House is the setting for the New York debut of London's Royal Opera and US premiere of Pfitzner's opera. Tenor Thomas Moser leads the cast. The conductor is Christian Thielemann; Jul 21, 24, 26

THEATRE
Umabatha: The Zulu Macbeth. Welcome Msomi's transposition *of Shakespeare's tragedy is* performed here in a dramatic new version by a cast of sixty-six drummers, dancers, singers and actors; at the New York State Theater; Jul 21-27

■ ROME

CONCERTS
Accademia Nazionale di Santa Cecilia Tel: 39-6-6880 1044
Orchestra and Choir of the Accademia Nazionale di Santa Cecilia: conducted by Yuri Temirkanov in works by Borodin, Rachmaninov and Prokofiev; with piano soloist Dmitrij Alexeev and contralto Larisa Djadkova; Jul 24, 25

■ SALZBURG

THEATRE
Salzburg Festival
Tel: 43-662-844501
● Der Alpenkönig und der Menschenfeind: by Ferdinand Raimund. Revival of Peter Stein's production, with sets by Ferdinand Wögerbauer. With music by Wenzel Müller; at the Landestheater; Jul 22, 23, 24
● Libussa: by Franz Grillparzer. New production directed by Peter Stein, with sets by Moidele Bickel. Libussa is played by Dörte Lyssewski; at the Perner-Insel; Jul 24, 25, 26

■ SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
● Arabella: Janice Watson sings the title role of Strauss's opera, in *a new production directed by* John Cox. The conductor is John Crosby; Jul 23
● Semele: new production of Handel's opera, conducted by John Nelson and directed by John Copley. Elizabeth Futral sings the title role; Jul 25
● Ashoka's Dream: world premiere of Peter Lieberson's opera, with a libretto by Douglas Penick. Set in ancient India, it tells the story of King Ashoka's transformation from angry conqueror to enlightened governor. Conducted by Richard Bradshaw, in a production directed by Stephen Wadsworth; Jul 26

■ SCHLESWIG-HOLSTEIN

CONCERTS
Music Festival
Tel: 49-431-567080
The Festival Orchestra performs a programme including works by Mendelssohn and Brahms. Conducted by Hartmut Haenchen, with violin soloist Miriam Fried; at the Theater, Itzehoe; Jul 21

■ TANGLEWOOD

CONCERTS
Tanglewood Festival
Tel: 1-617-931 2000
● Boston Symphony Orchestra: conducted by André Previn in works by Mozart, Haydn and Ravel, with violin soloist Pamela Frank; the Shed; Jul 25
● Boston Symphony Orchestra: conducted by André Previn in works by by Gould, Copland, Schumann and Gershwin, with clarinet soloist William R. Hudgins; the Shed; Jul 26

■ VERONA

OPERA
Arena di Verona
Tel: 39-45-800 5151
● Aida: by Verdi. Conducted by Nello Santi in a staging by Gianfranco de Bosio, revived by Susy Attendoli. Casts vary; Jul 24
● Carmen: by Bizet. Conducted *by David Gimenez, in a staging by* Franco Zeffirelli. Agnes Baltsa and José Carreras recreate their famous double-act on Jul 19, 22 & 25
● Macbeth: by Verdi. New production designed by Pier Luigi Pizzi, with choreography by Gheorghe Iancu. Conducted by John Neschling; casts vary; Jul 26
● Madama Butterfly: by Puccini. New production. Conducted by Angelo Campori, with designs by Beni Montresor; casts vary; Jul 23

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Financial Times Business Tonight

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08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Philip Stephens

Parliament puzzle

The government's plans for devolution in Scotland and Wales could take a battering ram to Britain's constitution

Familiarity breeds apathy. Tony Blair's plans to redraw Britain's political map have been so often rehearsed as to seem entirely unremarkable. A parliament for Scotland, an assembly for Wales: fine, but what about waiting lists in the health service. My guess is the White Papers preparing this seismic constitutional shift are destined to be as well read among the populace as Albert Venn Dicey's flawed Victorian essays on the immutability of the Westminster way of government.

We should not be misled. Although it suits Mr Blair to talk of a measured and discreet recalibration of the division of power in the British state, his plans are as radical as anything since the 1832 Great Reform Act. Home rule for Scotland and Wales has been proposed before. Many times. Home rule all round, or full-blooded federalism, was a call often heard at the beginning of the century. But there is a difference. Others have been broken on the rocks of constitutional reform. Mr Blair's impregnable majority guarantees he can deliver.

It is possible that Wales will reject in September's referendum the stunted assembly proposed for Cardiff. It voted four-to-one against devolution when it was last asked in 1979. Welsh nationalism is cultural as much as political. A change of heart now would be built on the me-too principle: Wales cannot afford to be left standing when the music stops in this latest game of constitutional musical chairs. No matter. It is the Scottish parliament that counts. And here a Yes vote is all but guaranteed.

The implications extend well beyond the measure of self-rule for Scotland so obdurately denied, and thus ever more keenly sought, during 18 years of Conservative government. Devolution promises to be the catalyst for a momentous assault on the corrosive centralism of the British state. It will serve as the midwife to English regionalism and, perhaps, as the precursor to a federal Britain.

London is already promised an assembly, the rest of England regional development agencies. Local government will have elected mayors sooner than it thinks. As Robin Cook, the cabinet's great enthusiast for reform, remarked with undisguised relish not so long ago, devolution will be "the battering ram with which we knock down the ramparts of the British centralised state".

Mr Blair would not put it quite like that. He tells us he is committed as any to the new politics of pluralism. Yet by temperament, he is a conservative, an instinctive incrementalist. No doubt, he knows too that, if final victory is assured, the passage of the devolution legislation will be bruising. You cannot tinker with the hidden wiring of Britain's unwritten constitution and not expect the occasional shock.

We have seen glimpses of the tensions during the cabinet's deliberations on the shape of the Scottish White Paper. Jack Straw, the home secretary, has held aloft the banner of England and St George: some would say on Mr Blair's behalf.

> Devolution promises to be the catalyst for a momentous assault on the corrosive centralism of the British state

Thus Donald Dewar, the Scottish secretary, had to fight hard to preserve the funding formula which gives Scotland an extra 20 per cent per head from the UK exchequer. Scotland will retain its 72 MPs (against the 60 warranted by its population) at Westminster. But, at Mr Straw's insistence, the position will be subject to review.

Mr Dewar has acknowledged too that were the new parliament to use its tax-varying power to lower taxes north of the border, it could expect a corresponding cut in the subsidy from the English.

There are other, as yet untangled, sources of conflict. Mr Blair has decreed that abortion law remains the preserve of Westminster. But I wonder whether the White Paper's careful delineation of powers will tell us if Scotland can make up its own mind about, say, tobacco advertising or the age of consent for homosexuals. And I am told the well-publicised skirmishes between Messrs Straw and Dewar have drawn a convenient veil over some caustic exchanges between the home secretary and Derry Irvine, the lord chancellor.

More interesting, though, has been Mr Blair's input. He has expunged from the White Paper the slightest whiff of separatism. He has personally overseen the passages which reassert the commitment to the union. Devolution, in his terms, represents a democratisation of the constitutional status quo, not a break with the 1707 Act of Union.

Mr Blair has insisted too that on relations with the European Union the words are crystal clear. Edinburgh can have a voice in Brussels, but British ministers will take the decisions.

In this the prime minister has taken a Diceyean view of the untramelled power of parliament. His answer to those who say devolution for Scotland will upset the fragile equilibrium of the constitution is straighforward: sovereignty devolved by Westminster is sovereignty ultimately retained.

At a glance, this is hard to square with the declaration in the 1988 Claim of Right, signed by Mr Dewar and almost all of Scotland's Labour MPs, that the nation's sovereignty resides with its people. But the constitution has always lived and breathed with such anomalies and asymmetries.

Thus the purists who otherwise brook no deviation from Dicey's monolithic vision somehow accept that the will of the people of Northern Ireland, expressed in a referendum, would over-ride the sovereign authority at Westminster.

Such constitutional conundrums will doubtless fill many days and nights in parliament between now and the eventual passage of the legislation at the end of 1998. Even then, the fine balance between Westminster and Edinburgh will not be settled. Custom and practice will count for more than the legal fine print.

What matters is where Mr Blair's adventure will lead. It is quite possible that within a decade or so Scotland will demand its independence. England could not refuse it. Alternatively, England may acquire its own taste for decentralised democracy. If so, the politics of pluralism will take hold in a recast union.

What we do know is that the future of the new settlement will rest not on debates in parliament or on the wrangling of the constitutional theorists, but on the unconscious judgment of the people. There, at least, nothing has changed since Dicey's day. It was Gladstone, after all, who said that Britain's constitution, presumes above all the good faith of its guardians.

·LETTERS TO THE EDITOR·

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EC seeking common policy to resolve lorry ban problem

From Mr Neil Kinnock.

Sir, I noted with interest the article "Hauliers urge Brussels to curb lorry bans" (July 16) about the increasing number of lorry bans in the European Union member states and and other countries in Europe.

It is clear that, although there are often good reasons for introducing restrictions on weekend driving and during public holidays, the fragmented and unilateral actions that are now being taken on a large scale can have a very disruptive effect on international road haulage and the economies which depend on it.

Until recently, lorry bans have obviously been limited in number and effect and member states have made it clear that they consider national or local authorities to be best placed to judge the necessity for these kinds of restrictions. The Commission has therefore not been in a position to develop common policies in this field.

The recent growth in the number of prohibitions and the increase in complaints, however, obviously stimulate attention and an increasing number of member states are beginning to agree with the Commission that the proliferation of unco-ordinated bans is jeopardising the operation of efficient international road haulage in the internal market.

This view was evident at the June meeting of the transport ministers' council and was subsequently confirmed at an expert meeting which I instructed the Commission services to call. All but two member states currently support a degree of Community co-ordination, particularly for international road haulage.

The Commission is, therefore, examining ways in which this issue can best be tackled at the European level and will come forward with appropriate proposals in due course.

It will be obvious that any action proposed by the Commission cannot quickly be turned into law. However, hauliers and others can be sure that the Commission is trying to alleviate the problems caused by weekend and holiday bans on trucks, taking into account the nature of particular loads and, of course, the wider interests of the Community.

Neil Kinnock,
Member of the European Commission,
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Belgium

US's two options for world credibility

From Mr Kurt Bassuener.

Sir, In response to Edward Mortimer's incisive piece, "Clinton doctrine" (July 16), George Bush's "new world order" foundered in Somalia due to US unwillingness to take up the mission's mandate, which was to disarm the warring factions that precipitated the famine.

It was only after a long interval that the deterrent force of US and other coalition firepower dwindled to the point that Somali factions felt that they could again resort to their (unconfiscated) guns and "technicals".

The same principle applies to the current fiasco in Cambodia: the disarmament of combatants was a crucial part of the Paris accords, but never occurred due to fear of casualties. The result is the total breakdown of order in the country, and a return to the despotism of vile and unstable Hun Sen. If violators of agreements aren't punished harshly, the entire mission becomes an inert charade.

The parallels with Bosnia, where the Bosnian Serbs routinely flout the Dayton agreement without fear of consequences are unnerving, to say the least.

As to the Clinton administration's current fetish for "regional solutions" to crises, it is sadly par for the course. Taking the path of least domestic political resistance has been the leitmotif for this administration's foreign policy from his inauguration forward.

It's also so fraught with inherent contradictions that it is doomed to fail. Sani Abacha's Nigerian troops shelling Sierra Leone's putschists (his mirror image) in the name of democracy with tacit US support? Pushing disbursements of international reconstruction funds to support one Bosnian Serb proponent of ethnic cleansing over another?

Absurd. But it has already happened. The US really has two options if it wishes to have any global credibility: accept its "default mode" mantle as the world's policeman by virtue of its abridged but still unrivalled power projection capability, or take the plunge and help create a standing UN foreign legion at the disposal of the Security Council available to enforce its resolutions and robustly undertake missions in future Somalias, Cambodias and Bosnias.

Neither path seems "politically viable" enough for Clinton to risk, unfortunately.

Kurt W. Bassuener,
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Washington DC 20015,
US

Fingertip security

From Mr John B. Harris.

Sir, Geoff Nairn's article, "The key to your identity" (July 15) is to be commended for its breadth and technical know-how. Fingerprint biometrics will certainly become commonplace in the next few years, bringing greater security and efficiency to a variety of applications. However, Mr Nairn has omitted one silicon chip technology which promises to reduce the cost of fingerprint sensors even more than the capacitive sensors he described.

Thomson-CSF Semiconducteurs Specifiques (Paris, France) has developed its FingerChip(tm) technology, which measures the heat of a user's finger to create a fingerprint image.

Our target cost will mean sensors can be integrated into car doors and home security systems, aswell as palm-top computers and cellular phones.

John B. Harris,
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Alexandria,
VA 22314, US

Terrorists

From Mr Manuel Bueno.

Sir, Eta is not a "Basque guerrilla group", as you stated on your front page (July 15).

Eta is a terrorist group, which has murdered 733 men, women and children in the past 30 years but never through what is commonly understood by "guerrilla warfare".

Manuel Bueno,
Argentaria,
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Spain

China's revolution in play

James Harding reports on the changing face of sport in the country, driven by broadcasting and sponsorship deals

As the mayor of Shanghai and government officials settled down last week to discuss the latest dazzling set of regional economic statistics, one issue darkened the mood: the losing streak at Shanghai Shenhua, the city's leading football club.

Like much of the rest of the country, China's largest city has fallen in love with football and Communist party officials were reported to be mulling over the same question that has echoed around factory canteens and schools all week – why has Shanghai lost the scoring habit?

Sport, driven by the same economic liberalisation that has furnished Shanghai with a new skyline and rapid growth, has taken off in China.

In the past five years, television broadcasting deals and big ticket sponsorship have recast the landscape of Chinese sporting competition. Sport's appeal to an increasingly affluent audience has created a realm of business opportunities. And commercialisation is throwing up a fresh breed of apolitical hero, endorsing the spirit of individual competitiveness and giving Chinese people a new form of home-grown entertainment.

Football is by far the most popular sport, and probably the fastest growing: last year's figure of 3.2m spectators at premier division football matches was nearly 50 per cent higher than two years earlier. And that is despite typical ticket prices of $4 each – a hefty chunk out of the $100 average monthly Shanghai salary.

Basketball is also making inroads, with two separate leagues – the China Basketball Association (CBA) and the CNBA – vying for fans' loyalty. More than 600,000 people attended last season's CBA matches, up 21 per cent on 1995.

The mass audience, though, is in front of the television. The China Football Association calculates that the average weekly TV audience is about 40m for premier division matches. The CBA also claims millions of viewers for the 168 basketball matches screened by China Central Television, the state broadcaster.

Television has transformed the industry. Since the early 1990s, satellite stations such as Star Sports and ESPN have given Chinese viewers a taste of international competition, increasing mass participation and whetting the appetite for star performers closer to home.

Martha Benson, director of communications for sportswear company Nike in Asia, says: "Television has helped grow the sports market in China ... so much has been linked to people's exposure to international sports." She quotes a survey of Chinese schoolchildren three years ago, who named their heroes as Mao Zedong first and US basketballer Michael Jordan second.

It was TV that drove the restructuring of Chinese football in 1993, with assistance from the sports management company IMG. All league matches are broadcast on the state-run CCTV, and there is regular coverage on Star Sports for an undisclosed sum.

IMG also secured Philip Morris as title sponsor of China's reorganised premier division, now known as the Marlboro League. The multi-million dollar deal is widely viewed as a bargain for the US tobacco company, making its flagship brand a household name. BAT's Hilton brand of cigarettes is chief sponsor of the CBA.

In China's cluttered advertising environment, sports sponsorship is an effective way to stand out. Such considerations have propelled a clutch of international names into sponsorship: Motorola, Ford, Nike, Canon, San Miguel, Kenwood, Budweiser and Spalding are all involved. Each football and basketball team is named after a company and the players sport the brand on their shirts.

The inflow of hard currency sponsorship has multiplied players' salaries. While a captain of Shanghai football club earned Yn100 a month in the early 1980s, Fan Zhiyi, today's captain and China's best-known footballer, is understood to earn more than Yn1m ($118,500) per year.

Most advertising and sponsorship revenue goes to the CFA and other sports bodies, but the clubs' proportion of the take is expected to grow along with new revenue sources such as merchandising and transfer fees. China's one-child policy has created a generation of parents who spare no expense on their "little emperors". Giving children what they want has driven demand for football strips.

Fan Zhiyi: annoyed by press intrusions into his private life

Meanwhile, some British clubs are understood to be sizing up Fan: an international transfer, if approved by China's conservative football authorities, would open a fresh stream of revenue for clubs.

Yu Zhifei, chairman of Shanghai Shenhua, sees no reason why his club should not go further. "Since 1994 our profits have been slowly rising," he says. "If everything goes according to plan, we will list on the stock market next year."

Commercialisation has not been welcomed in all quarters. Ping Ping of the China Sports News, one of the growing number of Chinese sport publications, says: "Players are making more money, but they do not behave in a professional way. We are creating football aristocrats."

Certainly, sports stars have eclipsed the heroes of China's Communist past. Today's idols are people such as Fan – but they are still shackled by socialist responsibilities. "Fan Zhiyi sometimes gets annoyed," says a Shanghai colleague of press intrusions into his romantic life. "He is a footballer, but he is expected to behave as a well-educated hero with good social morality."

Greater exposure to sport, and growth in leisure time since China started to move to a five-day week in 1995, has fuelled the surge in public participation.

"The market's growth has been faster than any of us expected," says Nike, which estimates China's athletics goods market to be worth $2.8bn annually and rising.

The state silo of world-beating athletes – weightlifters, gymnasts, swimmers, badminton and table tennis champions – remains largely insulated from the modern world of commercial sport.

But even the state bastions of sport will not remain immune to business for ever. Commercialised sport is changing China.

صكتا من الاجل

COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday July 21 1997

Treating with terrorists

There was precious little euphoria on the streets of Northern Ireland yesterday in the wake of Sinn Féin/IRA's latest ceasefire. Memories of how the last peace process exploded in the murderous bombing of London's Canary Wharf are fresh in too many minds to allow unbridled optimism now. Ulster's unionists are not alone in wondering whether this latest gesture from Republicans owes more to their perception of tactical advantage than any commitment to peace.

The risks for Mr Tony Blair's administration are obvious. It has gone as far as any British government could in bending to Sinn Féin/IRA's terms for their entry into multi-party talks on a new political settlement. In particular, it has effectively fudged the proposed timing of any decommissioning of terrorist weapons. Sinn Féin/IRA would be expected to hand over some weapons during the course of negotiations, but could not be excluded for dragging its feet.

Meanwhile, Mr Gerry Adams and his colleagues in Sinn Féin/IRA have proved themselves adept both at securing fresh concessions and at blaming others for Republican violence. The obvious danger now is that this second ceasefire is designed to win them maximum support – at home and abroad – ahead of a return to violence which would be blamed on the supposed obduracy of the British government and Ulster's unionists. Sinn Féin's pivotal supporters in Washington are particularly susceptible to such tactics.

Cautiously positive

Notwithstanding such caveats, how should others respond to the ceasefire? The answer is positively, but with great caution. Positively, because even a temporary lull in Sinn Féin/IRA violence might prove self-reinforcing. The longer Northern Ireland is free from sectarian murder and mayhem, the less likely it is to return to previous levels of violence. With caution, because a strategy seen to accommodate terrorism will undermine any residual faith in constitutional politics.

Ms Marjorie Mowlam, the Northern Ireland secretary, has said she will hold early talks with Mr Adams. She would do well to emphasise also that his place at the multi-party talks still rests on Republicans meeting the conditions laid out many times by Mr Blair.

Deed and word

The ceasefire must be observed in deed as well as word – that means an end to surveillance and targeting and to punishment shootings. And Mr Adams must sign up to the six principles of democracy and non-violence enunciated by Mr George Mitchell, the former US senator and independent chairman of the talks.

In his scheduled meeting today with Mr David Trimble, the leader of the Ulster unionists, Mr Blair should also make it plain that the principle of consent – the right of the majority in Northern Ireland to shape its destiny – is utterly inviolate. Whatever the promises or threats from Sinn Féin/IRA, nothing must be allowed to chip away at it.

With those assurances (and a promise of the speedy establishment of the independent review body on arms decommissioning under the chairmanship of General John de Chastelain) Mr Trimble should pause for reflection. The moderate unionism which his party represents may have much more to lose than it might gain by carrying out its threat to walk out of the talks. The political representatives of the hardline loyalist paramilitaries have already signalled their willingness to negotiate with Sinn Féin/IRA.

It may be that unionists will need more time to assess Republican intentions. If so, rather than force a showdown, Mr Blair might defer this week's critical vote in the talks on decommissioning.

The government can hardly expect unionists to presume Sinn Féin/IRA is acting in good faith. But it would be curious indeed if, by walking out, Mr Trimble seemed to leave Mr Adams standing on the moral high ground.

Brussels on the brink

The European Commission is due on Wednesday to decide on the proposed merger between Boeing and McDonnell Douglas. According to EU officials, only a miracle – in the form of further concessions by the US aerospace companies – will prevent the deal being vetoed on competition grounds. If no such *deus ex machina* emerges, there is a grave danger of an uncontrollable chain-reaction developing, which could severely harm transatlantic relations.

Exactly how events would unfold after an EU veto is hard to predict. However, it is quite possible that the companies would ignore Brussels' decision and ask their shareholders to approve their merger, which has been cleared by US antitrust authorities. Brussels would then have either to accept that outcome or carry out its threats to fine the merged group heavily and restrict its EU business.

By that stage, legal and economic arguments would be academic, and the issue would probably be reduced to a crude trial of political strength. Indeed, events are already moving that way. The US Senate last week unanimously condemned Brussels' stance, while President Bill Clinton warned the US would retaliate if the EU blocked the merger. But President Jacques Chirac of France and Mr Günter Rexrodt, German economics minister, urged the Commission to stand firm.

Regrettable

These interventions underline the industrial interests at stake. However, they are regrettable, particularly on the European side. The Commission is supposed to have independent authority over mergers and to judge them strictly on competition grounds. The statements by Mr Chirac and Mr Rexrodt prompt suspicions that Brussels is under pressure to do the bidding of EU governments.

Mr Karel Van Miert, the competition commissioner, and his colleagues need to show clearly that that is not the case. More important, they need to consider what interest would be served by pushing their objections to the Boeing deal towards open conflict with the US.

Weak foundations

Boeing has already gone some way to meet Brussels' demands. The main outstanding difference appears to be over the company's long-term exclusive supply arrangements with airlines. But Mr Van Miert's hard line on this issue seems based on weak foundations. First, the supply arrangements have been concluded only with carriers in the US, not the EU. Second, there is no evidence of any airline objecting to them – or, indeed, to the Boeing-McDonnell merger. The only strong industry complaints seem to be from the European Airbus consortium. Finally, the Federal Trade Commission, the US antitrust watchdog, which is concerned by the arrangements, plans to monitor them for possible anti-competitive effects.

If Brussels lacks confidence in the FTC, it is hard to imagine effective transatlantic antitrust co-operation. For the EU to insist on dictating changes in the US market looks like an attempt to impose its laws unilaterally on other countries. That undercuts EU criticism of extra-territorial US policies; it might also provoke Washington to interfere in future European competition cases over which the EU claims jurisdiction.

For Brussels to veto the Boeing deal could create incalculable political damage for no conceivable gain. It might well not stop the merger going ahead, and would procure no obvious advantages for airlines, passengers – or Airbus. Whatever threat the Boeing deal poses to Airbus is, in any case, small compared to the self-imposed handicap of the consortium's outdated structure. If Europe really cares about Airbus's competitiveness, it should spend more time removing the – largely political – obstacles that prevent it from becoming an efficient commercial business, and less time trying to thwart regrouping by its US rivals.

Moment of truth in France

Moves on the public deficit outlined today by the government will be sifted closely both internally and in Europe, says **David Owen**

Fifty days after the French left's unexpected general election victory, the moment of truth has arrived for prime minister Lionel Jospin's government.

Today the results of an independent audit showing how far this year's public deficit is overshooting its target will become public. At the same time, Mr Dominique Strauss-Kahn, finance minister, will set out the corrective action to be taken.

The vigour with which Mr Strauss-Kahn attacks the problem should provide the clearest indication yet of the balance the new government intends to strike between running a tight financial ship and tackling France's chronically high unemployment.

But the *Maastricht* convergence criteria linking participation in the planned European single currency to this year's deficit – a level of no more than 3 per cent of gross domestic product is in theory required – mean the impact of today's announcements will reverberate far beyond the Fifth Republic.

In essence, any decision by Mr Strauss-Kahn to jettison formally the previous centre-right government's 1997 deficit target of 3 per cent of GDP would send shock waves around the Continent and be widely interpreted as damaging to prospects of launching a strong European currency on time in 1999.

"The announcement of French intentions in terms of the deficit target is of crucial importance," says Prof Paul De Grauwe, economics professor at the University of Leuven in Belgium.

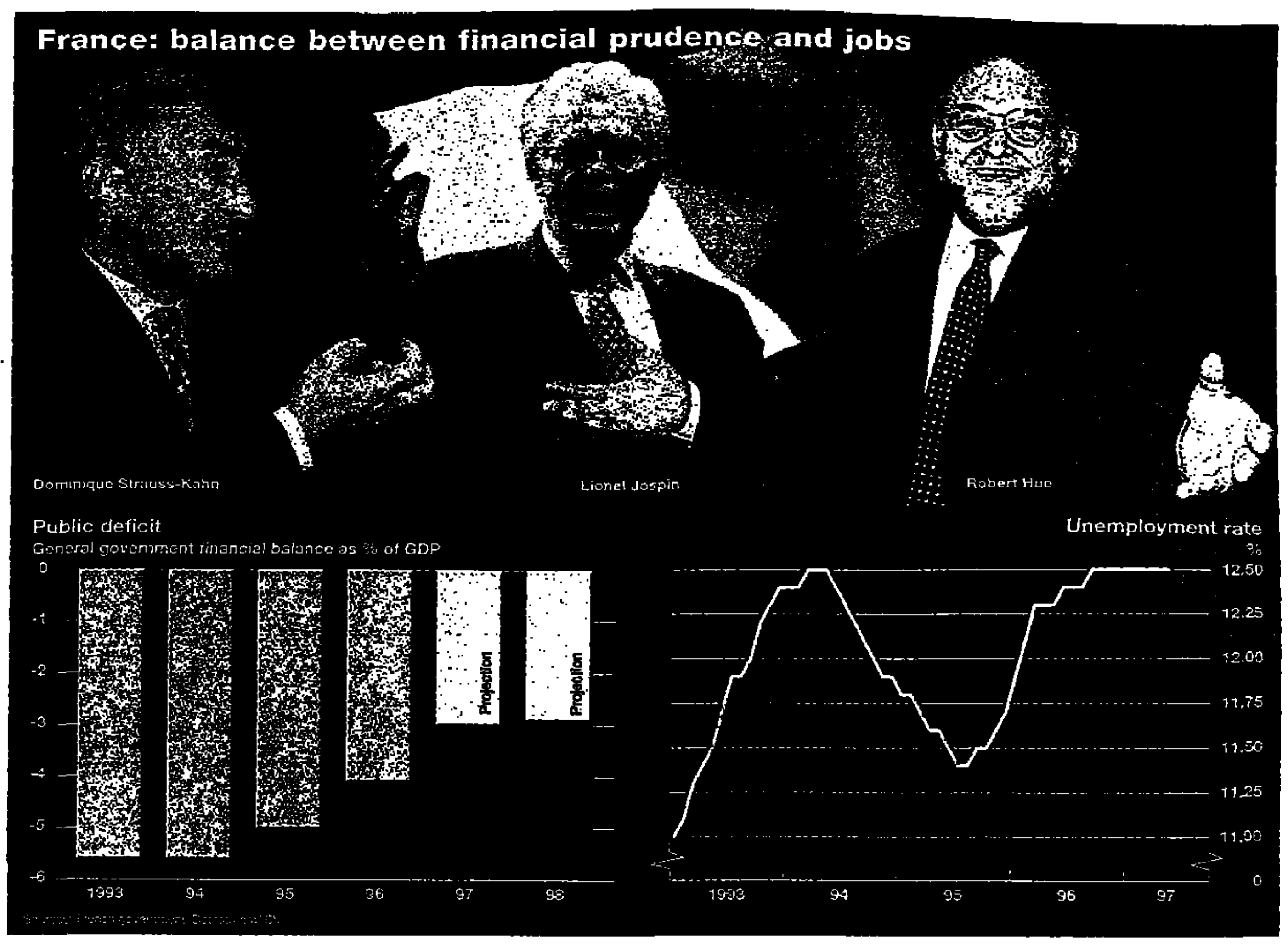
"If the French cannot come up with a clear intention to aim for 3 per cent, there is going to be hell. The opposition to economic and monetary union in Germany will get a tremendous boost if the French say they won't go for 3 per cent."

The government's room for manoeuvre is extremely limited. Mr Jospin was elected on promises to boost consumption and put many of France's more than 3m unemployed back to work. Any suggestion that the prime minister is switching priorities to concentrate more on single currency qualification than on the battle for jobs is likely to be viewed very dimly by the country's electorate, made grumpy by years of sluggish growth and stagnant living standards.

Memories of a similar U-turn by Mr Alain Juppé's previous centre-right administration are still fresh. Nor is the need to "cohabit" for five years with the wounded and restless Gaullist president Mr Jacques Chirac likely to make Mr Jospin's balancing act any easier.

There are already signs that the Socialist party's Communist coalition partners led by Mr Robert Hue are unhappy with aspects of the new government's record. This is in spite of plans unveiled this month to introduce by decree an emergency FFr11bn (£1.08bn) programme to meet some campaign commitments, including the creation of more than 60,000 jobs.

Last week, Mr Paul Lespagnol, a member of the Communists' national secretariat, pointedly underlined his party's opposition to privatisations – even "creeping or disguised" – just a day after Mr Strauss-Kahn indicated the state would let its stake in Thomson-CSF, the defence electronics group, fall below 50 per cent.



On Friday, the government looked set to antagonise the Communists further when it cleared the way for the break-up and sale of GAN, the loss-making state-owned insurance group. Some ministers, meanwhile, expect to press ahead with the partial privatisation of France Telecom later this year – a move that would raise funds to recapitalise ailing public companies.

Besides adopting an increasingly pragmatic approach to the sale of state-owned assets, the government has also disappointed sometimes excessively high leftwing expectations by increasing the minimum wage by "only" 4 per cent and apparently failing to save Renault's Belgian car assembly plant at Vilvoorde.

Commentators note that the Communist party today is both more moderate and weaker than when it last participated directly in a French government in the 1980s and suggest it will not threaten lightly to march out of office. Nonetheless, Mr Jospin depends on the 38 Communist MPs for his National Assembly majority and must tread somewhat cautiously.

In the words of Mr Dominique Moïsi, deputy director of the Institut Français des Relations Internationales, the government is not "a prisoner of the Communists, but at the same time it does not want directly to offend them".

A further restraint on the government is Mr Jospin's campaign promise that he would not implement new austerity measures in order to achieve the strict Maastricht deficit target.

Any steps today to increase taxes on individuals will risk attracting charges that the government has acted in bad faith. Initially, there were strong suggestions that well-off households would be among those hit by Mr Strauss-Kahn's new measures, but recent reports indicate ministers may have backed away from such proposals.

Observers nevertheless expect the treatment of the rich to emerge as one of the main differences between the Juppé and Jospin administrations. According to Mr Moïsi: "The previous government wanted to reduce the deficit by reducing state expenditure; the current government has the same aim but will achieve it through different means – asking the rich to pay".

Government officials indicated on Friday that today's package will seek to trim the deficit by about FFr30bn, enough to cut it by between 0.3 and 0.4 percentage points as a proportion of GDP.

Discussions on precise measures are expected to continue almost until the last minute, but there is little doubt that the country's increasingly profitable corporate sector will be asked to foot a big part of the bill.

Moves said to have been discussed include a sharp increase in the tax rate paid by companies on certain capital gains, a hike in employers' pension contributions and – most likely to be implemented – a rise of as much as 10 per cent in corporation tax. This would take it to a rate of about 40 per cent for a period likely to be restricted to 1997 and 1998. Such a move could by itself raise more than FFr14bn in 1997 alone.

Expectations that companies stand to be hit hard by Mr Strauss-Kahn helped trigger a sharp decline in the buoyant Paris stock market on Friday and have dismayed employers. The Patronat employers' federation says it is "worried" by suggestions of higher corporate taxes. It says French companies are already taxed more heavily than their counterparts in the UK, the US and Germany and warns that additional corporate taxes risk weakening growth.

The government may also seek one-off contributions from some state-owned companies. On the spending side, there are suggestions that significant savings will be demanded from several ministries, particularly defence. Plans are for new measures to be debated and voted on at an extraordinary session of parliament in early September.

Of course, the impact that tax increases and spending cuts will have on the 1997 deficit expressed as a proportion of GDP will not become clear until the extent of the overshoot revealed by the audit is known.

The most common expectation, encouraged by the government's own comments, is that the two members of the independent Court of Auditors will have concluded that the deficit, swollen by lower-than-expected tax and social security receipts, would hit between 3.6 per cent and 3.7 per cent of GDP without additional corrective measures. This would probably leave France heading for a 1997 deficit of more than 3.2 per cent of GDP, even after allowing for Mr Strauss-Kahn's new budget package.

This would not necessarily signal disaster for Emu, although it might alarm the markets and would probably make for some tense moments before the end of the year. Many already expect Mr Jospin to gamble that such a figure would be enough to keep monetary union on track and France a first-round single currency participant. For this to be so, Germany would almost certainly have to end its efforts to meet the strict 3 per cent target and settle for a similar overshoot.

Such a scenario seems close to that expected by Mr Eric Chaney, senior economist with Morgan Stanley in Paris. He concludes that a cut of between FFr25bn and FFr30bn in the French deficit overshoot would result in an actual deficit of 3.3 per cent of GDP, "probably acceptable both by the European Monetary Institute and the European Commission for Emu qualification".

But some predict that the overshoot pinpointed by the audit will be lower than the expected 3.6 to 3.7 per cent. Mr Philip Chitty, an economist with ABN Amro Hoare Govett, thinks 3.5 per cent is likely. Mr Patrick Artus, chief economist at Caisse des Dépôts et Consignations, a state-controlled financial institution, says he finds it "difficult to devise calculations that give a deficit of more than 3.4 per cent".

If they are right, a package of about FFr30bn worth of new measures could put the government within reach of the 3.0 per cent deficit level and Mr Strauss-Kahn may after all be able to surprise observers by insisting France remains well set to meet the strict Maastricht target.

Even Mr Artus acknowledges that further efforts will be needed if the deficit is to be kept at 3 per cent of GDP in 1998. He estimates that a figure of 3.8 per cent would be recorded without new measures and describes the government's growth assumptions as "very, very, very optimistic". Ministers, it seems, would be wise to assume their room for manoeuvre will remain tight for some time to come.

· OBSERVER ·

Trade summit

■ Australia's deputy premier and trade minister Tim Fischer doesn't shirk much in plugging exports to Japan. Last year, on a food promotion trip to Tokyo, the ever-enthusiastic minister downed a large, luscious oyster at a reception, ignoring his lifelong allergy to the bivalve molluscs. Those who witnessed the consequences say they were predictably unpleasant.

This exploit and pictures of his beaming face at the controls of the *shinkansen* bullet train – another photo-opportunity – have endeared him to the Japanese as the "boy-scout" minister from Down Under. Now the irrepressible Fischer says he's going to climb Mount Fuji, Japan's highest mountain and best-known cultural symbol, after bilateral ministerial talks in Tokyo next week.

As far as anyone can remember, it's the first time any senior minister from anywhere has used the gruelling climb as a publicity ploy. But Fischer describes the two-day hike as a "marketing venture" and has dismayed Tokyo's expatriate Australian business community by exhorting hapless executives to tag along. There will be little sympathy for those who cop out of the stunt citing health concerns. Fischer himself suffers badly from altitude sickness.

School's out

■ Malaysia has been busily wooing the UK's prestigious Cambridge University to set up a campus in the state of Perak. But Observer hears that the courtship isn't going too well.

Renong, a leading Malaysian infrastructure company, has set out its plans for the campus buildings and Cambridge isn't impressed. It wasn't expecting "dreaming spires", but a source says Renong's plans "cut a lot of corners".

Renong's payback for building the university was to be a concession to develop a large area of land surrounding it. But there are signs that the company, which is locked into several ambitious infrastructure projects, would welcome some quick cashflow from the project. If that's the reason for the shoestring proposal, it might be some time before the branch campus becomes reality.

Well oiled

■ Georgia president Eduard Shevardnadze, indefatigable veteran of global stand-offs and small wars, was well acquainted with the American elite before his current trip to Washington. As Soviet foreign minister, he was cultivated by several secretaries of state. Jim Baker took him for relaxed fishing trips in cowboy country. From George Shultz he got barbecues and spirited renderings of "Georgia's Always on My Mind".

Now the US elite is becoming knowledgeable about the land of the Golden Fleece. As co-host (with AT&T) of a weekend river cruise in honour of Shevardnadze, Chevron Overseas president Richard Matzke quoted from a medieval Georgian epic and reeled off an anecdote from Shevardnadze's days as head of the Georgian Communist Party.

On arrival in Washington, Shevardnadze said he'd decided either to learn English, or to teach the entire world his own country's rich but impenetrable language. There's no sign so far of either event – but with the smell of oil drifting from the Caspian to the Potomac, anything is possible.

Net call

■ What is it about fish that leads usually level-headed Canadian politicians to take on the world? Two years ago, the then fisheries minister Brian Tobin was "Captain Canada", vowing to protect every last North Atlantic turbot from marauding Spanish trawlers.

Now Glen Clark, the pugnacious premier of British Columbia, has become Canada's cheerleader-in-chief in a row with the US over salmon stocks in the north-east Pacific – Canada says the Americans are taking too many fish off Alaska, before they can reach Canadian nets. He's called US fishermen "thieves, rustlers and pirates" and threatened to cancel a US lease on a torpedo testing range on Vancouver Island.

Calmer voices in Ottawa have counselled Clark against shouting at Washington, but the combative former trade unionist has a domestic audience to consider as his social-democrat government stumbles from one embarrassment to another. Fierce protests from Vancouver's business community forced it to scrap pro-union labour reforms last week – two days before Clark's outburst in the salmon war.

Historic books

■ The independent audit of France's finances, to be unveiled by prime minister Lionel Jospin today, isn't just a 1990s, pre-Emu wheeze. Patrick Messerlin, economics professor at the Institut d'Etudes Politiques de Paris, has found examples going back to 1860. It's not for nothing that Jospin is often described as a traditionalist.

The Financial Times

100 years ago

Austrian Crown Currency
The month of July has arrived without bringing with it the so anxiously-awaited measures for the resumption of specie payments in Austro-Hungary. The different laws decreeing the introduction of the gold standard in the Dual Monarchy have, it will be remembered, been voted about five years. The precious metal has been flowing into the country in a manner quite extraordinary. Yet nothing is being done as regards the gold standard. Not one single gold piece is yet seen in circulation.

50 years ago

Easing The Power Load
The Government considers that stocks of coal held by power stations should be sufficient to enable cuts due to lack of fuel to be avoided for the most part during the coming winter. It cannot be said, however, that the capacity of the electricity generating plant, which will take two years to bring up to a satisfactory standard, will be sufficient to avoid occasional load shedding. Although 3,000 Poles have been recruited for training in the mines during the last ten weeks, objections from miners' lodges have prevented them being placed at the end of the training period.

FINANCIAL TIMES
Monday July 21 1997

Under-a-dollar stores thrive as Woolworth's leaves stage

US inflation poses no threat to the 99 Cents Only name, **Christopher Parkes** writes from Los Angeles

The great-grand-daddy of the five-and-dime store may have passed on, but the inflation-adjusted heirs of FW Woolworth's are alive and prospering in Main Street.

While the Woolworth group sets about closing its 400 stores, the Los Angeles-based 99 Cents Only chain and other deep-discounting entrepreneurs will be window-shopping its property portfolio.

Chains like 99 Cents Only - which sells nothing "ever" for more or less than the eponymous price - have no intention of giving up on the lowest end of the US retail market. And adding new stores is crucial to growing their businesses.

Mr Eric Schiffer, operations and finance chief of 99 Cents, plans to expand the 43-store chain by 20 per cent a year And he has no discernible concerns about inflation making him change their name.

The company relies for its success as much on the endless search by manufacturers for new marketing ploys as on the consumer's love of a bargain. Its stock-in-trade includes the discontinued, the redundant and the test-marketing failures of leading-brand manufacturers. "Thank God for all those MBAs at the consumer goods companies," he says.

When the makers of Sucrets throat lozenges switched from tins of 24 to plastic packs of 18, the 99 Cents Only chain was there to take up the old stock.

It is also there to soak up surplus water. San Pellegrino and Perrier, for example, are among the biggest attractions at the Beverly Hills store on Wilshire Boulevard. And while conventional supermarkets insist on sell-by dates up to 12 months in advance on their supplies, it is no big deal for 99 Cents to stock water with four months of shelf-life remaining, says Mr Schiffer.

Adding to customer-appeal is the fact that it is not unusual to spot film stars trundling carts through the Wilshire shop's brilliantly lighted array of hot-sauce, plastic gee-gaws and dandruff shampoos.

Food and soft drinks, Mr Schiffer says, account for about 40 per cent of total group revenues - $184m from 43 stores last year. Selling such staples, he says, is one of the strategies which encourages one or two shopper-visits a week.

The group's quirky taste in stunts also attracts regular media coverage. Store openings are routinely promoted with television sets at the 99 cent price. Latching on to the Hong Kong handover and demise of the British Empire, it recently issued free coupons entitling bearers to a consolatory pack of English teabags.

Mr David Gold, founder of 99 Cents Only, launched the one-price-point concept in 1982, but since then rivals such as Dollar Tree and MacFrugal's Bargain Close-Outs have emerged and grown faster.

Yet 99 Cents is still admired by its rivals for its consistency and its jealously protected relationships with suppliers.

"We are one of the few retailers who have never cancelled a purchase order," claims Mr Schiffer. Nor does the company, unlike conventional stores, take stock on a sale-or-return basis. "We don't ask for promotional allowances or make charges for shelf-slots. We just want the bottom-bottom net price," he says.

As in real life, the best things do not last for ever. Mr Schiffer tries to keep the range consistent, so people coming for a specific item know they will find it. But this is not always possible.

He remembers the Frank Sinatra brand of spaghetti sauce, a flop with the supermarket trade.

"The manufacturer went broke, we bought the whole lot, and our customers got the best of it for a year," he recalls.

In the meantime, the brand was sold, the product relaunched as a gourmet speciality and it now sells for up to $5 a jar in speciality shops - but not in or at 99 Cents.

THE LEX COLUMN

Battle of Boeing

Listen to the hoo-ha from Airbus and the European Commission, and one could think the European aircraft consortium's viability was threatened by Boeing's planned merger with McDonnell Douglas. Otherwise, surely, people would not be risking a transatlantic trade war.

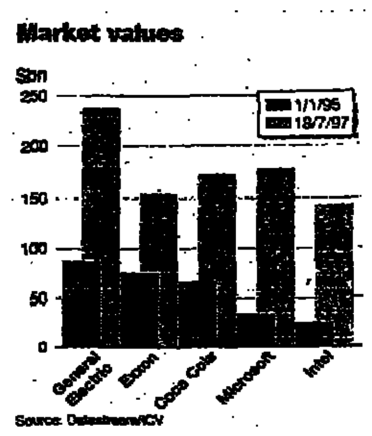
Well, things are not quite that logical. Certainly, a Boeing/McDonnell combination will be more powerful, but the effect on Airbus will probably be marginal. Douglas, McDonnell's civilian arm, is already a spent force in the market for new jets – so there is no real change there. Boeing may now gain a slight edge in supplying its aircraft to Douglas's customers. But the notion that airlines might have to buy Boeing jets in order to receive Douglas spare parts seems far-fetched.

Boeing's 20-year exclusive deals with three airlines are more worrying. Though many airlines find it convenient to buy from a single source, writing exclusivity into a contract for such a long time does look anti-competitive. Nevertheless, these deals are really nothing to do with the merger – which makes it a trifle puzzling why they have become the main stumbling block.

Scrutiny of Boeing by competition authorities is fair enough. But Airbus should be focusing on winning the battle in the air. That means turning the consortium into a proper company. After years of discussing whether and how to do this, Airbus's partners – mainly the French (surprise, surprise) – are still dithering.

And if the partners are worried that McDonnell/Boeing will be a more powerful force in supplying fighters, the answer to that is for Europe to consolidate its defence industry. Indeed, it is a bit rich for the Europeans to complain about how Boeing's civilian business could gain an unfair advantage from access to McDonnell's defence technology. Many Europeans want to build Airbus into a civilian-cum-defence combine to tap similar synergies. The message is: stop whingeing and get on with it.

Market values



Source: Datastream/ICV

High-tech stocks

Oops, only an 89 per cent increase in earnings – how disappointing. It may seem churlish to knock 6 per cent off Microsoft's shares for a performance most companies can only dream of. In fact, US high-tech stocks had such a run-up ahead of their quarterly results that most ended up on last week, despite Friday's setback. Microsoft has even overtaken Coca-Cola to become the market's second-most valuable company after General Electric.

At a time of low inflation, the sector's premium growth is supporting premium ratings. Microsoft is on a dizzy-looking price/earnings ratio of 45 times for the current year. But adjust for profit-smoothing and quarterly earnings more than doubled – beating official forecasts and matching the more optimistic "whisper numbers" that analysts do not publish. Meanwhile, Intel – trading on a 1997 multiple of 20 times – increased second-quarter earnings 58 per cent.

This latest batch of results has done much to remove the pall of Intel's shock profits warning in May. And rapid growth in networking products is making the industry less dependent on cycles in personal computer sales. The same factors have propelled European tech stocks higher too. SGS-Thomson and Philips have tripled over the past year, with restructuring the prime driver in the latter case. After such runs, tech stocks are especially vulnerable if global stock markets correct.

Grundig

At first sight, Philips' "sale" of most of its Grundig stake to an investor group led by Botts & Co, the London investment boutique, seems odd. The Dutch electronics giant does not receive any cash upfront and only receives part of the upside if the near-bankrupt Grundig is turned around. Moreover, Philips still has to cover Grundig's 1996 losses (though the exact sum is disputed) and buy the Max Grundig Foundation's 52 per cent stake in the company in 2004.

In so far as there is a rationale for the deal, it is that there is now so much bad blood between Philips and Grundig that the Dutch group cannot engage creatively in restructuring the German company. Botts, at least, does not carry such baggage. But that does not mean its chances of reviving the group are great. Bits of Grundig are probably worth salvaging but it may need to be hacked back severely. And, while Botts seems prepared to raise funds to finance Grundig's working capital, that is presumably contingent on the management and Botts agreeing a turnaround strategy. Given that Botts has yet to hold discussions with the management, such meeting of minds may not occur. The mere act of "buying" the stake is not a great vote of confidence since it has not yet paid a pfennig.

Executive pay

Later this week, Siebe will show a lonely good example and give shareholders a direct vote on its board remuneration policies. It is a pity that hardly any other UK companies do the same, because the Siebe approach is a good one. In most cases, shareholders unhappy with executive fat-cattery have no direct means of expressing discontent. They can vote against an overpaid director's appointment – but that is usually overkill.

The classic case was Mr George Simpson's appointment at the General Electric Company. Many shareholders felt the targets set in his pay package were too soft, but were delighted at his arrival. That left them with no satisfactory means of making their concerns felt. As it happens, the GEC débâcle was so high-profile that the company was embarrassed into a partial retreat. But to expect the same public pressures in more common-or-garden cases is unrealistic.

Of course, companies could go even further than Siebe and give shareholders a vote on individual directors' pay packages. But whether such micro-management by investors is really necessary must be doubtful, especially since this might undermine companies' ability to negotiate with some potential recruits. Nevertheless, to give shareholders a direct means of expressing lack of confidence in the remuneration committee seems a compelling middle way. It is a gap in the Greenbury Committee's recommendations which Sir Ronald Hampel could usefully fill.

Hopewell warns on rising costs of Bangkok project

By Louise Lucas in Hong Kong

Hopewell Holdings, the Hong Kong infrastructure company behind a US$3.2bn mass transit system for Bangkok, has warned that the devaluation of the Thai baht has pushed up costs by 15 per cent and set back the completion date.

Hopewell, one of Asia's biggest companies, said guarantees from the Thai government in May brought the Bangkok Elevated Road and Train System (Berts) closer to full financing, but "the situation has changed because of the decline of the economic climate and is further exacerbated by the devaluation of the baht".

Funding for any project in Thailand was now harder, it said. In addition, the downturn of the property market and the low-fare structure of the community train system had reduced future revenues, while project costs had increased.

The result was an estimated 15 per cent rise in total costs to $3.7bn, Hopewell said. "The international banks, which are committed to the project, now need to reassess the project financing structure."

Sir Gordon Wu: call for Thai government support

The original completion date of December next year for the highway section – in time for the Asian Games – is also in doubt. "The project cannot be completed as originally planned," the company said.

However, Hopewell said it remained committed to the project - signalling that closer co-operation from the Thai government would be required to keep Berts on track.

The project has been plagued by delays, many of which Hopewell has blamed on the government. Financing has also caused headaches, although last week Hopewell strengthened its resources by selling its remaining 20 per cent stake in Consolidated Electric Power Asia for US$150m in cash.

Cepa, which operates power plants in China and the Philippines, is now wholly owned by Southern Company, the US electricity group which bought an initial 80 per cent stake nine months ago.

Berts has been the subject of frustration for Sir Gordon Wu, Hopewell's chairman, with wrangles punctuating progress. The project, begun seven years ago, has so far cost Hopewell more than $500m – in return for which it is to receive revenue from adjacent property developments.

But its patience appears to be wearing thin. "For Hopewell to complete this project, the Thai government must guarantee and support its original agreement with us," Sir Gordon said.

US looks at flight curbs

Continued from Page 1

US and France would reopen a Franco-American dispute over air services that was narrowly averted last year.

US trade experts say a row with the EU would be deeply unwelcome to an administration that has taken pride in selling the idea of negotiated trade arrangements to other countries and its own business community.

But the US government has indicated it will complain to the World Trade Organisation if the Commission rejects the merger and imposes sanctions against the companies involved.

A row over Boeing would throw light on the WTO's failure to harmonise competition policy – and also make it harder for US companies to accept any international authority to regulate competition. The WTO launched a study on trade and competition last December, but has been bogged down by semantic disputes.

"The WTO has deprived governments of most other tools to close a market, but if the EU takes action against us on grounds of competition, that could be more effective than tariffs," said Mr Alan Wolf, a Washington trade lawyer.

Some US policymakers believe the point of no return will not come on Wednesday, when the Commission pronounces its opinion, but only if the Commission goes ahead with fines or sequestrations.

IRA ceasefire receives muted response

Continued from Page 1

drawn on whether the ceasefire was "permanent".

The IRA's statement, issued on Saturday, referred to an "unequivocal ceasefire", similar to its announcement in August 1994. That was broken in February 1996 with a bomb in London Docklands, followed by a string of attacks in Britain and Ulster.

The government has said it will test republican sincerity in a six-week "decontamination period", when the IRA will be expected to end punishment beatings, targetting of security personnel, training and recruiting.

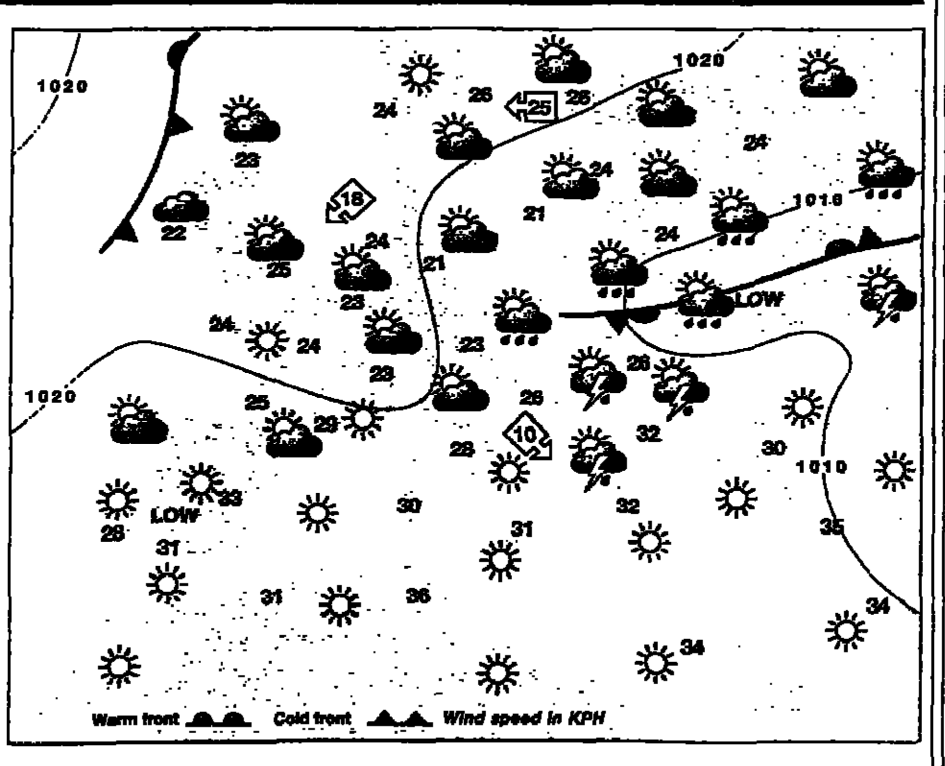
FT WEATHER GUIDE

Europe today

Central eastern Europe will remain unsettled with further heavy rain and thunderstorms, although brighter and drier weather will move into northern Poland. Scandinavia will be dry and mainly sunny, apart from the west coast of Norway which will be cloudy with drizzle. Western Europe will be mainly dry with sunny spells. Spain and Portugal will have mainly clear skies although there may be isolated showers inland this afternoon. The Mediterranean countries will continue hot and sunny.

Five-day forecast

Most of Europe will have fine weather. Iberia and the western Mediterranean will have an increasing chance of thundery showers, and these will move into France by the middle of the week. Scandinavia will be mostly sunny and warm although cloudier weather will move into the north. Eastern Europe will become brighter and drier.



TODAY'S TEMPERATURES

Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

	Maximum	Beijing	Fair 33	Caracas	Fair 32	Faro	Sun 29	Madrid	Sun 33	Rangoon	Shower 30
	Celsius	Belfast	Drzzl 22	Cardiff	Fair 23	Frankfurt	Thunder 25	Majorca	Sun 29	Reykjavik	Fair 15
Abu Dhabi	Sun 40	Belgrade	Cloudy 24	Casablanca	Sun 26	Geneva	Fair 23	Malta	Sun 31	Rio	Fair 26
Accra	Cloudy 28	Berlin	Rain 21	Chicago	Fair 30	Gibraltar	Sun 24	Manchester	Fair 23	Rome	Sun 28
Algiers	Sun 31	Bermuda	Fair 30	Cologne	Fair 24	Glasgow	Cloudy 23	Manila	Cloudy 34	S. Frsco	Cloudy 21
Amsterdam	Fair 23	Bogota	Fair 18	Dakar	Fair 29	Hamburg	Sun 24	Melbourne	Fair 12	Seoul	Cloudy 32
Athens	Sun 32	Bombay	Shower 32	Dallas	Sun 35	Helsinki	Sun 26	Mexico City	Shower 23	Singapore	Cloudy 33
Atlanta	Rain 31	Brussels	Fair 23	Delhi	Shower 36	Hong Kong	Shower 27	Miami	Fair 32	Stockholm	Sun 26
B. Aires	Fair 15	Budapest	Thunder 21	Dubai	Sun 39	Honolulu	Fair 32	Milan	Sun 26	Strasbourg	Cloudy 22
B.Ham	Fair 24	C.Hagen	Fair 23	Dublin	Cloudy 22	Istanbul	Sun 29	Montreal	Fair 23	Sydney	Fair 17
Bangkok	Cloudy 35	Cairo	Sun 37	Dubrovnik	Fair 26	Jakarta	Fair 32	Moscow	Cloudy 24	Tangier	Fair 28
Barcelona	Sun 26	Cape Town	Fair 19	Edinburgh	Fair 22	Jersey	Fair 20	Munich	Shower 24	Tel Aviv	Sun 34
						Karachi	Fair 35	Nairobi	Fair 24	Tokyo	Fair 28
						Kuwait	Sun 44	Naples	Sun 27	Toronto	Shower 22
						L. Angeles	Sun 24	Nassau	Fair 33	Vancouver	Rain 21
						Las Palmas	Sun 28	New York	Fair 30	Venice	Fair 24
						Lima	Fair 25	Nice	Sun 29	Vienna	Rain 18
						Lisbon	Fair 28	Nicosia	Sun 35	Warsaw	Thunder 21
						London	Sunny 25	Oslo	Fair 24	Washington	Fair 32
						Lux.Bourg	Thunder 21	Paris	Fair 24	Wellington	Shower 11
						Lyon	Sun 24	Perth	Sun 21	Winnipeg	Sun 26
						Madeira	Fair 25	Prague	Rain 18	Zurich	Cloudy 19

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FINANCIAL TIMES
COMPANIES & MARKETS
Monday July 21 1997
Week 30

IN BRIEF

Foreign capital targets Germany

British companies are no longer the most favoured targets for foreign investment in Europe, having been replaced by their German counterparts. In the first six months of 1997, \$14.7bn (£8.8bn) of foreign investment flowed into Germany, while in the UK investment fell 40 per cent to \$11.6bn. Page 18

Portucel moves back into the black
Portucel Industrial, Europe's biggest producer of eucalyptus pulp, achieved a strong turnround in the first half of 1997, lifting profit to Es752m (\$4.1m) from a Es2.9bn loss in the same period last year. The Portuguese government is expected this month to announce a restructuring of the country's pulp and paper industry. Page 20

Japanese carmakers lift exports
The weaker yen led to higher exports for Japan's five main carmakers, with growth of between 12.4 per cent at Toyota and 50.3 per cent at Honda in the first half. The figures are likely to reinforce criticism by US carmakers that the weak yen and tax increases in Japan are encouraging Japanese manufacturers to sell more cars overseas. Page 20

F1 float runs into problems
The plan to float Formula One Holdings ran into another slick patch with the disclosure that SBC Warburg, the Swiss-owned investment bank set to play a central role in the issue, had recently provided advice to Mr Bernie Ecclestone, the company's chief executive. Page 20

Capital gain to lift Volvo profits
Volvo, the Swedish car and truck maker, is expected tomorrow to report first-half pre-tax profit in the SKr7.3bn-SKr8.26bn (\$1.06bn) range, up from SKr3.86bn. The estimates include a capital gain of SKr3.03bn from the sale of its stake in Pripp-Ringnes. Page 22

Diabetes drug 'worth \$1.67bn a year'
The International Diabetic Conference in Helsinki will hear clinical evidence supporting the effectiveness of troglitazone, a diabetes drug being developed by Glaxo Wellcome of the UK, Warner-Lambert of the US and Sankyo of Japan. Analysts say troglitazone will create a market worth more than £1bn (\$1.67bn) a year. Page 18

Placing to value SHL at £100m
SHL, the UK group which provides psychometric testing for job applicants, is planning an autumn flotation, by way of a placing, which will value it at more than £100m (\$167m). Psychometric tests measure ability, personality, motivation and competence. Page 18

Terex warns UK suppliers to cut prices
Terex, the US construction equipment maker, is planning a large increase in production at its Scottish plant but has warned its UK suppliers that they must cut their prices as part of the battle to combat the rising pound. Page 18

Brazil the weak point in Latin America
A revival in the economic fortunes of Latin America has put the region back in the spotlight, but Brazil remains a weak point. Page 22; Stock market fall a correction, Page 24

IMI to outsource computer business
Israel Military Industries, the state-owned company, will outsource its computer unit to Electronic Data Systems, the US computer group, in a deal worth \$35m. Page 20

Japanese debut for stock options
Individual stock options made their debut on Japan's two main stock exchanges on Friday, making it the third-largest options market in the world. Page 20

Companies in this issue

Market Statistics http://www.FT.com

Joint ventures in China also suffer persistent start-up problems

Siemens hit by Indian losses

By Graham Bowley in Berlin

Siemens, the German industrial group, said yesterday that its Indian operations would show a loss this year. It blamed economic slowdown in the country – one of its biggest Asian markets – and the sharp rise in interest rates.

It also reported persistent start-up problems with joint ventures in China, including difficulties with its local partners.

Mr Günter Wilhelm, a board member responsible for the Asia-Pacific region, said the problems meant Siemens would record a loss on its Indian business this year after rapid growth over the last four years.

Mr Wilhelm, speaking on the eve of Siemens' annual press conference in Berlin, forecast a profit of about DM300m (\$166.6m) from business in Asia this year, unchanged from last time.

He stressed, however, that the profit would have been higher but for slower growth and higher interest rates in India. "We have a big problem in overdue payments [from Indian customers] and also on the borrowing we have made."

Siemens, which has been in the Indian market for about 75 years, has about 10 factories in the country. Mr Wilhelm said the slowdown meant some were now "under-utilised".

Siemens would also make no profit in China this year. One reason was difficulties with its Chinese partners, which had added to start-up costs. "We have sent the wrong managers or we have the wrong partner, or both," he said. "We will need some time to make a profit."

Even so, Mr Wilhelm still described Siemens' performance in China – one of the company's fastest growing markets – as "reasonable". Siemens had DM3bn new orders in China this year, he said.

The company has founded about 35 joint ventures in China over the past five years. But Mr Wilhelm said it would slow the pace of new joint ventures to curtail the rise in start-up costs. "Now we have to consolidate. We will do some more [joint ventures] but investment will now go into the successful joint ventures," he said.

Siemens expects new orders of about \$10bn in the Asia-Pacific region this year. By 2000, it expects the region to generate about \$15bn annually. It has invested \$2bn in the region to date and is expecting this figure to reach \$4bn by 2001.

Divisions reorganised, Page 20

Float set to value demerged Billiton at \$7.8bn

By Kenneth Gooding, Mining Correspondent

Shares in Billiton are expected to be priced at about 225p tomorrow, analysts say, valuing the mining and metals group being demerged from Gencor of South Africa at £4.7bn (\$7.8bn).

This will make Billiton one of the 50 biggest groups listed on the London stock exchange, qualifying it for the FTSE 100 Index. It is understood the group will join the index on September 22.

The expected price is in the middle of the 210p-240p range outlined at the beginning of July in a pathfinder prospectus. Billiton will raise £843.7m gross from the flotation by placing 375m new shares.

Analysts suggest that, after successful international roadshows over the past two weeks, the offer was about twice subscribed. Conditional dealings in the shares will begin tomorrow and unconditional trading starts on the London and Johannesburg exchanges next Monday.

One analyst said: "The shares are fully valued at 225p but they will go higher in the short term while Billiton is waiting to go into the FTSE index – possibly to 250p or 260p. But there will be some sales by South African holders who will be taking profits."

The group has estimated its attributable profit before exceptionals will be at least £204m for the year to the end of June, with a pro forma dividend of 12p. For the first nine months, sales totalled £2.6bn, and net operating assets were £3.37bn on March 31.

At present more than half of Billiton's operations are associated with aluminium production, and 70 per cent of its net assets are in South Africa. However, the London listing will give it the firepower to build up in other parts of the world and in other minerals.

It has already agreed to merge its nickel division with QNI of Australia to form a \$1.8bn entity of which Billiton will have 55 per cent.

The group is associated with a consortium that acquired a stake in CVRD of Brazil, the world's number two iron ore producer, and another consortium looking at CVG, the Venezuelan aluminium producer.

Business 'forced to embrace the euro'

By Wolfgang Münchau, Economics Correspondent

Many UK companies may be forced to switch much of their billing and payment systems from sterling to euros in 1999, whether the UK joins monetary union or not, according to Barclays Bank.

Several UK suppliers have already been warned by large continental companies to switch price lists from sterling to euros from 1999.

British companies which trade in the EU may pass on their own currency exposure to their UK-based suppliers, creating a knock-on effect for the European currency inside the UK, say bankers at Barclays.

Mr Bernd Euler, finance director of Siemens UK, the British arm of the German engineering company, said that if many companies switched to euros, "this could accelerate UK membership of Emu".

Since there is no effective way of hedging against the euro – especially for small companies – businesses will have to pass the risk on to their own suppliers, thereby "forcing the euro down the supply chain", said a senior banker.

Mr Gordon Brown, the chancellor, is aware that the euro may enter the UK through the back door. Last week started a national debate about the implications for the UK of the euro, saying it would affect UK companies whether the UK joined Emu or not.

The government and senior bankers are alarmed at the complacent attitude most UK companies are taking towards the euro. A survey by Barclays says 75 per cent of UK firms have made no preparations at all for monetary union.

The extent to which the euro is likely to enter into the UK will be subject to large regional and sectoral variations. Automotive suppliers are thought to be most affected, and so would regions with a high concentration of automotive industries.

Mr Euler said that the extent to which continental companies would force their suppliers into accepting euros as the currency of choice would depend on the volatility of sterling, which has been extremely strong recently.

Moment of truth, Page 15

German exporters gain from weak currency

Market ponders D-Mark slide

The D-Mark, sliding steadily for a year, has recently begun to nose-dive. It has lost 15 pfennigs against the pound in the last month, and has fallen more than 5 pfennigs against the dollar in a fortnight. "You could almost call that a devaluation," said Mr Peter von Maydell, senior currency economist at Union Bank of Switzerland.

The question in the market is whether Germany will do anything to stop the slide. The answer seems to be no.

Since last August the D-Mark has dropped 32 per cent against the pound to around DM3.00, and 18 per cent against the dollar to about DM1.80. The forces behind this move seem set to remain in place. German interest rates are well below those in the UK and the US, prompting a flight out of Germany in search of higher yields. Also, the forex market believes that in 18 months' time the D-Mark will merge into a weak single European currency.

The market's assault on the currency has paused briefly, for fear that the Bundesbank and other central banks might counter-attack by buying D-Marks. The Bundesbank is famously obsessive about inflation, and a weak D-Mark raises the price of imports.

Yet the market increasingly believes for now Germany is happy with the D-Mark's level. Mr Helmut Kohl, the German chancellor, said on Friday that its fall was "not earth shattering" and noted the boost it had given to exports. Mr Peter Hausmann, the government spokesman, last Wednesday also sounded relaxed about the currency's slide, saying: "There is no need to dramatise recent developments on foreign exchange markets."

Mr Holger Fahrinkrug, Frankfurt-based economist at UBS, commented: "It was a very soft stance." Policymakers seemed scarcely concerned about the D-Mark because unit wage costs were falling and import price rises not being passed on to consumers.

Mr Hausmann also said Germany was in contact with its partners in the Group of Seven leading industrialised countries, which felt currency rates should not move too far out of line with economic fundamentals. That echoed comments from Mr Theo Waigel, German finance minister, and Mr Hans Tietmeyer, Bundesbank president.

But strategists now think such remarks were meant chiefly to give the market a sense of two-way risk, stopping the D-Mark collapsing. Mr Fahrinkrug said: "Germany is happy with the present level, but a bit concerned about the momentum and the possibility that this could get out of control." He doubted whether German worries would increase much if the dollar moved above DM1.80, as long as the move was not too rapid.

The Bundesbank is in any case known to be sceptical of intervention. When economic fundamentals seem to point one way, central banks usually cannot move a currency the other way. Bear Stearns, the US bank, said: "The G7 knows that cash intervention is pretty pointless."

German exporters are benefiting from the weak currency, as are buyers of German shares, which have roared ahead this year. Inflation is under control and without the currency stimulus to exports, the German economy would have little to keep it going at a time of flat domestic demand.

Since there is a lag of about nine months before exchange rate moves affect exports, German companies are now profiting from D-Mark levels at the end of last year. The impact of present rates will carry them through to early 1998, by which time they hope export growth will be accompanied by stronger domestic demand and capital investment. Only then is the Bundesbank likely to consider raising rates.

"Inflation is on an even keel," said Mr Gernot Nerb, economist at Salomon Brothers in Frankfurt. "There is little reason to do anything in the short term to raise rates."

Mr Tietmeyer said earlier this month that the D-Mark's correction was "undoubtedly at an end". Mr Brian Marber, an independent currency analyst, said that if this was true he would eat his own hat, Mr Tietmeyer's and Mr Tietmeyer's lederhosen.

Simon Kuper and Andrew Fisher

BT chief travels to US for talks on fate of MCI deal

By Paul Taylor in London

Sir Peter Bonfield, British Telecommunications' chief executive, will fly to MCI's Washington headquarters today to discuss the future of BT's bid for the 80 per cent of the US long distance carrier it does not own.

The deal, announced last November, has been thrown into doubt after MCI warned 10 days ago it would lose \$800m this year and next on its attempt to break into the \$100bn US local telephone market.

This prompted some institutional investors in London to call last week for a renegotiation of the terms of the merger agreement, although such a move would be certain to lead to legal action against BT.

Indeed most industry analysts in the US do not believe the deal can be renegotiated. They believe it would collapse if BT attempted to change the terms.

But they accept there might be room for a face-saving compromise. It might, for example, involve MCI scaling back its investment plans, which could be justified on the basis of the changed regulatory situation in the US telecoms market.

Meanwhile there were signs in London and the US that both sides were trying to "cool down" the debate.

Sir Peter spent the weekend at BT's London headquarters reviewing the options with Mr Robert Brace, finance director, Mr Bert Roberts, chairman of MCI, and Mr Gerald Taylor, MCI's chief executive.

The four are believed to be keen to find a compromise which can be put to the rest of the MCI board during meetings in Washington beginning today.

Despite the recent decline in BT's share price – the shares lost 10½p to close at 430p on Friday – down from a year-high of 502½p – the deal still looks attractive to MCI shareholders.

BT's original offer, based on exchanging each MCI share for 5.4 BT shares and \$6 cash, would have cost BT about \$20bn – a figure which it still uses when describing the deal.

Based on BT's share price on Friday and current exchange rates, the deal is now worth around about \$45 a share – well above the original \$35-\$40 estimates and MCI's own share price, which dropped \$2⅛ to close at \$33⅝ on Friday.

Terex warns UK suppliers to cut prices

By Peter Marsh

Terex, the US construction equipment maker, is planning a large increase in production at its Scottish plant but has warned its UK suppliers that they must cut their prices as part of the battle to combat the rising pound.

By 2000, the plant in Motherwell is scheduled to make 1,000 large trucks annually for construction and quarrying, compared with 750 this year.

Output from the plant, which employs a workforce of 600, is worth about £113.7m ($190m) a year. Terex claims the plant makes the biggest trucks in Europe, each weighing up to 100 tonnes and costing as much as $600,000.

But with 90 per cent of production from Motherwell exported, Terex is warning that its $18m five-year investment programme to push up production could be jeopardised unless UK suppliers reduce their costs.

Like many UK-based manufacturers, Terex has been hit by the large rise in sterling over the past year which makes exports from Britain more expensive.

But the company also argues that the surge in sterling has cut the prices of imports. As a result, it is trying to persuade many of its 300 UK suppliers that they should pass on to Terex savings on any imports needed to make their products.

Savings in the past year have been substantial for any UK supplier making, for instance, sub-assemblies or plastic items which rely either on German-made parts or which rely on chemicals priced in D-Marks rather than pounds.

Mr Bill Buchan, president of the truck arm of Terex, hinted that failure by UK suppliers to cut prices could mean the company imported more components to take into account sterling's strength.

Of the Motherwell plant's $120m a year purchasing bill for components, about half comes from the UK. "This could come down a bit," said Mr Buchan.

As part of Terex's plan to increase production from the UK, employment at the Motherwell plant is expected to rise by up to a fifth over the next three years.

Apart from trucks, Terex also makes other construction machines such as cranes. About 60 per cent of its trucks are made in Scotland, with other plants mainly in the US.

It is among the world's biggest makers of large trucks. Its competitors include Volvo of Sweden, Caterpillar of the US and Japan's Komatsu.

A large proportion of its sales from the UK are marketed in joint ventures with companies such as Kawasaki of Japan and O&K of Germany. It also has a large manufacturing project in China, which sells about 70 trucks a year.

Strategy again called into question

NatWest is reluctantly back in the spotlight. George Graham reports

Last week's breakdown of merger talks between National Westminster Bank and Prudential Corporation has thrown the battered clearing bank back into a spotlight it has struggled in vain to escape.

Although the talks were initiated by Prudential, the UK's largest publicly held life assurer, it is NatWest's strategy, not Prudential's, that investors are once again calling into question.

Little more than a year ago, Mr Derek Wanless, NatWest's chief executive, appeared finally to have convinced fund managers that the group had a settled and coherent strategy.

NatWest Bancorp, the group's US banking subsidiary, had been sold off, leaving the group's retail banking operations firmly focused on the UK. On the investment banking side, a series of targeted acquisitions had addressed weaknesses in fund management, bond markets and mergers and acquisitions.

Lombard, the UK's dominant finance and leasing house, and Coutts, the leading private bank, were to form the other two pillars of the group.

In a matter of months, investors' belief in that strategy has unravelled.

First came the discovery in February of pricing errors in NatWest Markets' interest rate options division, leaving a loss of £77m. That led to the resignation of Mr Martin Owen, the investment bank's chief executive, and a review of the operation. The outcome is expected to be announced with NatWest's interim results next month.

The discovery that NatWest's merger approach had been rebuffed by Abbey National, the former building society, led to further confusion.

NatWest's explanation to analysts that the combination would have reduced its dependence on volatile investment banking earnings left a sour taste. In the previous 12 months it had spent close to £1bn on acquisitions intended to build up those investment banking earnings.

All NatWest's beleaguered senior management now wants is to be left alone to sort out the future of NatWest Markets – still short of a chief executive – and to get on with managing their business, free from distractions.

And distractions is the right term, for NatWest's problems lie not in its size or its line-up of businesses, nor even in investment banking, whose shortcomings have commanded most recent attention.

Its problems lie essentially in the retail banking business at the heart of the group. The UK branch bank, together with its Ulster associate, accounted for 56 per cent of group pre-tax profits last year – a good one for NatWest Markets. This year its contribution is forecast by Dresdner Kleinwort Benson, the German-owned brokers, at 65 per cent.

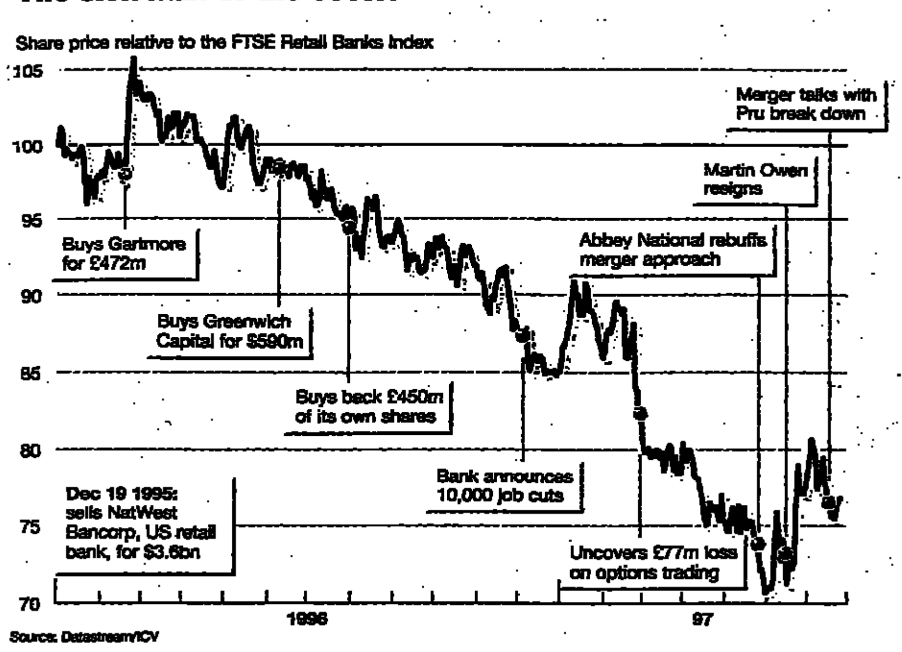
NatWest has launched a programme which will close 350 branches and shed 10,000 jobs, but competitors and some of its own managers say that by the time it completes that programme, the targets will have moved ahead of it once more.

NatWest's problems are relative. Despite the problems in investment banking, the group is still forecast to make pre-tax profits in excess of £1.7bn this year. That represents an underlying return on equity of about 17.5 per cent, a level many other sectors can only dream of.

That is still not enough to satisfy institutional investors, however, in a year when only the converted building societies will produce less than 20 per cent and when Lloyds TSB will show that it can sustain returns above 30 per cent post-tax.

What institutional investors are now asking, although they are not brave enough to do so openly, is whether Mr Wanless and his chairman, Lord Alexander, are the right managers to bring NatWest's performance up to the level they have come to expect from the banking sector.

The sick man of the sector



Source: Datastream/ICV

CVC bid £540m for Littlewoods outlets

By Peter Pearse

CVC Capital Partners, the UK venture capital company, emerged yesterday as one of the groups that in late May expressed an interest in acquiring Littlewoods' 135 high street stores.

In a letter dated June 2 to Mr James Ross, Littlewoods' chairman, Mr Michael Smith, CVC chairman, made a revised offer of £540m ($902m) cash, with £40m of that sum to be reinvested by Littlewoods in the new company. It is believed that the offer has not been withdrawn.

The emergence of this letter follows the circulation on Friday of an unsigned letter accusing the Littlewoods management of keeping shareholders in the dark about CVC's bid. It was then thought to have been written by shareholders unhappy with the £192.5m sale of Littlewoods' main 19 stores to Marks and Spencer, which was announced last week.

The unsigned letter criticised the proposed sale, claiming it would lead to at least 3,500 job losses and redundancy costs of £10m.

Littlewoods said yesterday it had never had "a clean cash offer of £540m which would enable the group to exit the retailing business". It would have to reinvest £40m of CVC's offer in the retailing business as a condition of sale, and it is thought that it would incur a further charge of more than £50m, reducing its final tally to about £450m.

Littlewoods said the sale to M&S, combined with a number of initiatives on the remaining stores, including sale and leaseback deals, would create a better return for shareholders, all members of the Moores family.

However, the regularly held shareholder forum meets tomorrow. A formal voting procedure is scheduled for early September. Littlewoods said yesterday that Mr Ross had "broad support" from shareholders.

Talks last month between Littlewoods and Kingfisher, owner of Woolworths, Comet and Superdrug, collapsed when Kingfisher reduced its indicative offer for the stores to about £500m. Littlewoods then announced it had decided to restructure the chain with a view to possibly floating the business in two to three years.

NEWS DIGEST

Fairplace plans £3m Aim debut

Fairplace Consulting, a City-based outplacement and career management consultancy, intends to float on Aim later this month, in a move that is likely to give the company a market capitalisation of about £3m ($5m)

It will issue 33.3m ordinary shares at 3p to raise some £1m of new financing, representing 27.1 per cent of the enlarged share capital. In addition, 3.2m shares are being placed on behalf of Mr Mark Allsup, executive chairman, and his wife, and Mr Colyn Gardner, a non-executive director. After the placing they will collectively continue to hold 28.5 per cent of the enlarged share capital. The shares being placed in total represent 29.7 per cent of the enlarged capital.

Mr Allsup, who became chief executive of DC Gardner on its USM flotation in 1988, and Mr Gardner, former executive chairman of DC Gardner, founded Fairplace in 1992.

Fairplace's business is the provision of advice and assistance – in such areas as executive counselling programmes, interview skills and job search – primarily to clients in the financial services sector, though it has broader-based ambitions. *Gary Mead*

Getty buys Aarons' work

Getty Communications, a provider of still and moving images to worldwide media, has bought the work of Slim Aarons, the distinctive "*paparazzo* of class" for an undisclosed price.

Aarons' work ranged from portraits of show business and political personalities to coverage of world events. He worked for US magazines including *Life* and *Yank*, the army publication, during and after the second world war.

Mr Stephen Mayes, Getty creative director, said he thought the collection would interest all of Getty's clients, "especially those in the publishing and magazine sectors, as well as those outside the US where it has not been marketed before".

Getty, traded on Nasdaq in the US, has made a string of acquisitions since its foundation 19 months ago by Mr Mark Getty, chairman, and Mr Jonathan Klein, chief executive. *Sam Coulthard*

JBA raising £12.4m

JBA Holdings, the business applications software vendor, is raising £12.4m ($20.7m), net of expenses, though a share placing at 800p with international institutional investors. Part of the proceeds of the placing, organised by Kleinwort Benson Securities, will be used to repay the £5.6m borrowings incurred in April, when JBA acquired the French Presys group.

Mansfield Brewery purchase

Mansfield Brewery has acquired seven managed houses from McManus Taverns in Northampton for £8.5m ($14.2m) cash, equivalent to their asset value. In the last full year to April 27 1997, the pubs generated a barrelage of 4,800.

The deal increases the number of the company's pubs in Northampton to 17.

Lucas Aerospace controls buy

Lucas Aerospace, a division of LucasVarity, the Anglo-US engineering group, has acquired the engine controls business of Smiths Industries for an undisclosed amount, believed to be less than £10m.

Lucas Aerospace said the acquisition consolidated its leading position in the manufacture of electronic controls for gas turbine engines.

Northern Rock float cleared

Northern Rock, the last of the five building societies converting to banks this year, has received clearance to proceed by the Building Societies Commission. Mr Leo Finn, managing director of the Newcastle-based society, welcomed the announcement, saying Northern Rock remained firmly on course for flotation on October 1. Each of its 900,000 members will be eligible for 500 free shares, a windfall of up to £2,000 ($3,340).

Norman Hay sells site for £7m

Norman Hay, the metal processing and equipment supplier, is to sell its 7.2 acre site at Heathrow to Allied Commercial Exporters for £7m ($11.7m) subject to shareholder approval. The net profit will be £1.1m while the revaluation reserve of about £4.9m will be released to the profit and loss reserve, restoring the ability of the company to pay dividends. The net proceeds of £6.6m will be applied to eliminating debt and providing working capital.

Friendly Hotels £5m deal

Friendly Hotels has entered into an agreement with the Scottish American Investment Company for the sale and leaseback of its 95-bedroom Milton Keynes Quality Hotel for £5.28m ($8.8m) cash.

Net asset value of the hotel in Friendly's accounts was £4.6m and profit before interest of the hotel for 1996 was £580,000.

Formula One float runs into another slick patch

By Clay Harris

The plan to float Formula One Holdings ran into another slick patch yesterday with the disclosure that SBC Warburg, the Swiss-owned investment bank set to play a central role in the issue, had recently provided independent advice to Mr Bernie Ecclestone, the company's chief executive.

FOH, owned by family trusts of Mr Ecclestone's wife, markets broadcasting rights for the Grand Prix motor sport.

Warburg, one of four global managers for the issue, confirmed it had completed an unspecified "exercise" at the request of Mr Ecclestone and Mr Max Mosley, president of the Fédèration Internationale de l'Automobile, the motor sport's non-profit governing body.

This raises new questions about Mr Ecclestone's relationship with Salomon Brothers, the US investment bank which has had a contract for 10 months to act as his "exclusive financial adviser" and is leading the project to bring the company to market later this year.

Salomon said it had been assured by Warburg there was no question of a "rival plan" to the flotation, for which the US bank is to act as global co-ordinator. The work done for Mr Ecclestone had been "quick and informal", and was completed a month ago. Warburg restated its commitment to the flotation plan.

The FIA owns the rights which FOH markets, under a contract which extends until to the end of 2021. It is possible that Mr Ecclestone and Mr Mosley asked Warburg to explore alternatives if the flotation did not proceed.

Yesterday was the second time in six days that Salomon was forced to seek assurances from one of its partners. Last week, it asked BZW, the Barclays investment banking subsidiary also planning to act as a global manager, to confirm that privileged information given to its syndicate department had not been passed on to another client.

This followed the disclosure BZW was helping British Sky Broadcasting, the satellite television group, to assess a possible rival plan to the Salomon-backed flotation. Salomon later said BZW had acted "entirely properly" and was a "valued member" of the syndicate.

Glaxo's high hopes for diabetes drug

By Clive Cookson, Science Editor

The International Diabetic Conference in Helsinki this week will hear powerful clinical evidence for the effectiveness of troglitazone, a diabetes drug being developed jointly by Glaxo Wellcome of the UK, Warner-Lambert of the US and Sankyo of Japan.

Analysts predict that troglitazone, the first new diabetes treatment for a generation, will create a new global market worth more than £1bn a year for the three companies.

Sankyo discovered troglitazone but has licensed European marketing rights to Glaxo and US rights to Warner-Lambert.

Glaxo researchers will present new clinical data to the conference, showing that troglitazone decreases the risk of kidney and heart disease, a leading of cause of death in diabetic patients.

The drug is aimed at people with Type 2 or adult-onset form of the disease, which accounts for 90 per cent of diabetes cases. In Europe, 16.5m people have Type 2 diabetes.

Dr David Eckland, Glaxo's head of metabolic diseases research, said the results "are very encouraging. They suggest that troglitazone will have a significant impact in preventing some of the complications of Type 2 diabetes."

Troglitazone was approved by regulatory authorities in Japan and the US last winter. Glaxo expects the first European approval later this year in the UK; annual European sales are expected to reach £300m ($501m) by 2002.

SHL plans autumn flotation

By Peter Pearse

SHL, which provides psychometric testing for job applicants and career development, is planning an autumn flotation, by way of a placing, which will value the group at more than £100m ($167m).

Psychometric tests measure ability, personality, motivation and competence.

SHL was co-founded by psychologists Professor Peter Saville, chairman, and Mr Roger Holdsworth, group managing director, in 1977.

The placing is expected to raise between £30m and £40m, including £5m-£10m of new money.

Prof Saville currently has a 29 per cent stake, while Mr Holdsworth and his ex-wife each have 5 per cent.

Mr Holdsworth has already sold a large part of his stake to venture capitalists Royal Bank Development Capital, which now has 20 per cent. The balance is held by other directors, employees and international partners.

In the year to September 30, SHL made pre-tax profits of £7.8m (£6.8m) on turnover of £32m (£27.1m), some 45 per cent of which derived from overseas operations.

In the current year, profits are expected to grow to £8.4m on turnover of £38.4m with the overseas proportion rising to 50 per cent. The group operates in 36 countries.

Mr Holdsworth said yesterday the float was intended: to enable the group to increase its penetration in various markets – particularly the US – by acquisition; to motivate key employees, especially international partners who have swapped their original joint venture shares for those in SHL; and to gain a higher profile for the company.

Sales of testing products is SHL's most profitable business area, though the group also provides training – so that the client companies' staff can use the tests themselves – and consultancy services.

NatWest Markets is sponsor to the issue and BZW broker.

Foreign funds target Germany

By Gary Mead

British companies have fallen from their pedestal as the most favoured targets for foreign investment in Europe, replaced by their German counterparts.

In the first six months of 1997, $14.7bn (£8.8bn) of foreign corporate investment flowed into Germany, a six-fold increase on the $2.2bn invested there in the same period in 1996. In the UK, by contrast, the first half saw a 40 per cent decline – the first for three years – from $19.8bn to $11.6bn.

This is the first time in nine years of KPMG Corporate Finance's annual survey of cross-border mergers, acquisitions and strategic investments that Germany has attracted larger total inward corporate investment than Britain.

However, in terms of the total number of deals, the UK is still in front, with 213 acquisitions and strategic investments in the first half, compared with 140 cross-border deals in France and 117 in Germany.

KPMG's figures support evidence from MA International, a German consultancy, which showed that the number of acquisitions of German companies by foreign investors jumped to 267 in the first half, against 223 in the same period for 1996. US investors bought 108 German companies – up from 60 the year before – while UK companies almost doubled their German acquisitions, from 23 to 42.

Mr Stephen Barrett, UK head of mergers and acquisitions at KPMG Corporate Finance, said: "The UK may be losing some of its pulling power as a magnet for inward investments into Europe. Some international companies may have been deterred from buying here by the strong pound and Britain's approach to the single currency."

British companies have also reduced their level of overseas investment; in the first six months the total was $13.5bn ($17.9bn), leaving Swiss companies as Europe's biggest international investors.

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Japanese car-makers lift exports

By Bethan Hutton in Tokyo

The weaker yen led to higher exports for Japan's five main car-makers, with growth of between 12.4 per cent at Toyota and 50.3 per cent at Honda in the first half of the year. Domestic data were more patchy.

The figures are likely to reinforce criticism voiced last week by US car manufacturers that the weak yen and tax increases at home are encouraging Japanese manufacturers to sell more cars overseas. Japanese car exports to the US in June rose 38.5 per cent, according to trade figures released on Wednesday.

Domestic sales were up 3.1 per cent at Toyota, but down slightly at Nissan and Mitsubishi. Mazda reported domestic sales up 12.0 per cent overall, and passenger car sales up 32.8 per cent, compared with the same period last year, when Mazda's sales were at record lows. The popularity of the Demio, a small "utility wagon" launched last August, helped Mazda beat the trend.

Honda reported an 8 per cent improvement in sales, and took a record 10.9 per cent share of the Japanese market.

Mr Matthew Ruddick, auto analyst at HSBC James Capel in Tokyo, said: "Honda's market share was up in the first half, but sales have weakened in recent months. The reason they have done so well in the last six months is the popularity of recreational vehicles. Honda's Step WGN and S-MX have done extremely well." However, the Step WGN was released a year ago, so sales are likely to slow, Mr Ruddick added.

Honda's latest mini-car, the Life, has also posted strong sales, as it is the only new mini-car on the market. Other manufacturers are delaying new models until new safety regulations are introduced next year.

Car sales in Japan were boosted in late 1996 and early 1997 as consumers brought forward purchases to beat the consumption tax increase from April 1 this year, but sales dropped sharply after the increase, and have not yet recovered.

"Sales were expected to recover in July, but they do not appear to be recovering much at all, and are still down more than 10 per cent," said Mr Ruddick.

● Honda's share price fell Y310 to Y3,390 in Tokyo on Friday, after reports that it was being sued for $11bn in the US by a group of car dealers who allege that Honda failed to supply popular car models to dealers who did not pay kickbacks. Analysts said it was unlikely that the company would end up paying such substantial damages.

Debut for stock options in Japan

By Gwen Robinson in Tokyo

Individual stock options made their debut on Japan's two main stock exchanges on Friday, making it the third-largest stock options market in the world.

The Osaka and Tokyo exchanges began options trading on 33 Japanese stocks, with seven issues traded on both exchanges.

They include blue-chip exporters such as Sony, financial institutions such as Bank of Tokyo-Mitsubishi and Industrial Bank of Japan, telecommunications giant Nippon Telegraph and Telephone, retailer Seven-Eleven Japan, and game-maker Nintendo.

The move was treated with caution as investors hesitated ahead of Japan's three-day holiday weekend and uncertainty over the direction of the new market. However, brokers expect the new options trading to build momentum and add vigour to the cash stock market.

Trading focused on high-priced stocks that perform strongly on the cash market. Sony was actively sought. The stock's call option with a strike price of Y11,000 rose Y50 from its opening price of Y220 to finish at Y270. On the cash market, the stock ended flat at Y10,700.

Unravelling a family empire

Dutch-based SHV is selling its European cash-and-carry stores

Mr Paul Fentener van Vlissingen, chairman of SHV Holdings, the privately held Dutch retailing and energy group, has never shied away from bold strategic moves.

While other international groups have been divesting entire units in recent months, he is preparing to shed the largest chunk of his wealthy family's heritage.

By selling the Makro cash-and-carry outlets in Europe to the Metro retailing group of Germany, SHV is disposing of activities that represented more than half its turnover last year. SHV Makro had sales of Fl 21.5bn ($10.7bn) in this period – most of which came in Europe – compared with Fl 8.4bn at the SHV Energy operation.

Metro already owns up to 40 per cent of Makro's European self-service stores. The company's retail activities in other countries, from China to Venezuela, were excluded from the latest negotiations with Metro, but SHV said it would consider selling them as well at a later stage.

In line with its reputation as one of the country's best-kept entrepreneurial secrets, SHV declined to explain the motives behind the unravelling of the family empire, or what it would do with the proceeds of the sale, which may reach up to Fl 4bn.

Analysts said SHV had chosen the right time to divest, but they were puzzled by the company's strategy. Some believed SHV would focus more strongly on the energy trade, while others suggested it would be gradually transformed into an investment firm.

To a large extent, the deal signifies a retreat to the energy business that made the fortune of the Fentener van Vlissingen family – listed last year as the country's third-richest behind the Brenninkmeyers of C&A and Mr Alfred Heineken, the brewer. It still owns about 60 per cent of the company's shares, while the rest is spread among managers and former directors.

The family started amassing its fortune when Paul's grandfather, Mr Frits Fentener van Vlissingen II, who assisted at the birth of several well-known Dutch multinationals, exploited a monopoly on coal imports from Germany. When the coal trade collapsed in the 1960s, SHV switched to liquefied petroleum gas, acquiring stakes in the dominant brands Primagaz and Calor.

However, it was with the creation of Makro that SHV started diversifying on a large scale. With a concept similar to US warehouse stores – shoppers are required to show a special "passport" – the Makro chain has swollen to more than 170 stores in 19 countries. Last year it reported profits of Fl 380m against Fl 225m for the energy business.

Since he assumed the helm in 1983, Mr Paul Fentener van Vlissingen, a self-declared adept of "creative chaos", has taken several strategic turns. He started by selling SHV's activities in shipping and computing to concentrate on the core business of retailing and energy. Later he split the group into two autonomous units, SHV Makro and SHV Energy.

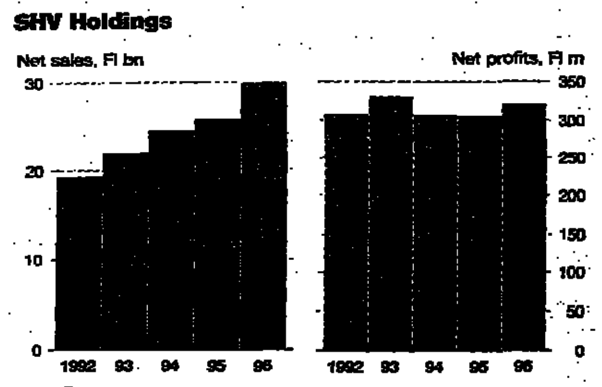
The split four years ago enabled Mr Fentener van Vlissingen, 56, to leave the daily running of the group in the hands of two non-family managers, while he moved to Scotland to read philosophy, write poetry and compile a 2,000-page book about the company's history. Nevertheless, he is still regarded as the brain behind the strategy of SHV.

At the time, it was suggested that the split was partly aimed at solving the problem of succession at the top of the company. None of the nine children of Mr Fentener van Vlissingen, nor his two brothers, Frits III and John, were in line for the leadership.

Left in the dark about the group's intentions, some commentators suggested the sale of Makro may be closely linked with this problem, as the family faces enormous succession rights. In his latest book, *Entrepreneurs are Donkeys*, Mr Fentener van Vlissingen himself pointed to the tax-man as the worst enemy of a family business.

Barbara Smit

SHV Holdings



Source: Company

Portucel moves back into the black

By Peter Wise in Lisbon

Portucel Industrial, Europe's biggest producer of eucalyptus pulp, achieved a strong turnround in the first half of 1997, lifting net consolidated profit to Es752m ($4.1m) from a Es2.9bn loss in the same period last year.

The results come ahead of an expected government announcement this month of an important restructuring plan for Portugal's pulp and paper industry, one of the country's leading industrial sectors and currently dominated by state-controlled companies. Portucel said a 15 per cent increase in total sales to Es26.2bn was almost exclusively because of stronger demand, as average pulp prices remained virtually unchanged over the two periods. Production grew 22 per cent to 311,000 tonnes.

Shares in the group, which closed at Es1,490 on Friday, up just under 0.5 per cent on the previous close, gained 46 per cent in the first half of 1997.

Pulp prices fell sharply in the first quarter of 1997, leading to a build-up of stocks, but recovered strongly from March and stocks had been reduced to the equivalent of one week's production, Portucel said. It forecast buoyant prices for the rest of 1997 and 1998.

Improved productivity enabled the group to increase its average gross sales margin from 3 per cent in the first six months of 1996 to 16.5 per cent this year, Portucel said. Operating profits rose to Es742m from a Es2.6bn loss in the first half of 1996. Financial costs fell from Es409m to Es168m.

Variable unit production costs for eucalyptus pulp were down 8 per cent as a result of cost-cutting, more efficient energy use and an increase in production capacity use to 94 per cent, Portucel said. The company invested Es3.2bn in the first half of this year and paid Es1.5bn in dividends.

INTERNATIONAL NEWS DIGEST

Siemens plans drives revamp

Siemens, the German electrical and electronics group, has announced a reorganisation of its automation and industrial drives businesses. The move to reshape what is Siemens' second-largest business – ahead of the publication of the group's third-quarter results next week – reflected changes in technology and market demand, the group said.

It said it had formed a new unit which would bring together the group's existing core automation and drives businesses from two other divisions. A new logistics automation unit has also been created, in part to accommodate its fast-growing postal automation business following the acquisition of AEG Electrocom from Daimler-Benz earlier this year.

Graham Bowley, Frankfurt

■ DIGITAL RECORDING

Underwriters boost Nice offer

The underwriters of Nice Systems' public share offering have decided to exercise an option to purchase an additional 397,500 American depositary shares (ADS), the Israeli digital recording and retrieval systems manufacturer said yesterday. This will bring the net amount raised by Nice in its offering to $97m.

Nice Systems last week priced its offering of 2.65m American depositary shares at $34.50 each. The offering will finance Nice's current operations, particularly its highly successful call-centre market. Nice reported a surge in first-quarter net income, from $640,000 to $2.2m. Earnings per share rose from 9 cents to 28 cents.

Judy Dempsey, Jerusalem

■ DEFENCE

IMI in $35m outsourcing deal

Israel Military Industries, the state-owned company, will outsource its computer unit to Electronic Data Systems, the US computer services group, in a deal worth $35m. The five-year agreement reflects the gradual restructuring of IMI as it seeks to become more competitive.

IMI had sales of more than $550m last year but was heavily in the red. During the first quarter of this year, it reported a net profit of $8.4m, compared with a loss of more than $17.4m in the same 1996 period. EDS will upgrade all of IMI's computerised hardware and software systems.

Judy Dempsey

■ LIECHTENSTEIN

First life insurer established

GT Bank in Liechtenstein, controlled by the Liechtenstein royal family, and Barc, one of Austria's biggest insurance companies, have set up Capital Life, Liechtenstein's first life insurance company. It will have a capital of SFr16m ($10.8m) and specialise in life assurance and annuities.

Liechtenstein, keen to diversify as a financial centre, passed its first insurance legislation in January 1996 and wants to capitalise on its low-tax advantages and membership of the European Economic Area to build up an insurance industry to balance its private banking and trust company business. Six companies have taken advantage of the new legislation, but Capital Life is the first independent entity to be established.

William Hall, Zurich

FINANCIAL TIMES MARKETS THIS WEEK

Global Investor / Philip Coggan

Brazil reawakens Latin doubts

It was only two years ago that enthusiasts for Asian stock markets were sneering at the naivety of investors who were bailing out of emerging markets following the Mexican peso crisis.

Asia is nothing like Latin America, they argued. It has sounder finances, a better trade position and stronger currencies. Two and a half years later, Asia appears the poor relation, with Latin America the place to be.

A revival in its economic fortunes, combined with a change in investor sentiment towards the region, has allowed the IFC's Latin American index to more than double, in dollar terms, from its low point in March 1995. The IFC's Asian index has underperformed Latin America by 28.5 per cent since the start of the year.

The currency turmoil that has swept Asia in recent months has highlighted some of the flaws in its economic policy approach. Governments have stuck to a rigid exchange rate regime, which meant that their economies expanded too rapidly in the early 1990s, only for the policy to become too restrictive in recent years.

The recent weakness of the yen has also meant that many Asian countries, which have linked their currencies to the dollar, have lost competitiveness with Japan. This, allied to sluggish economic growth in the region's main markets, and signs of overcapacity in important sectors such as electronics, caused a sharp slowdown in export growth. An annual growth rate of 35 per cent in early 1995 fell to nil by late 1996, according to HSBC James Capel. That has led to a similar slowdown in corporate earnings growth.

Arguably, the region could have been more effective in dealing with the problem. The Thai government's stubbornness in resisting a depreciation of the baht was, no doubt, partly influenced by the problems of its financial sector, which has borrowed heavily overseas. But it eventually had to swallow its medicine and speculators, having tasted blood, moved to other targets.

Meanwhile, Latin America is on the upswing, having been though the recessionary worst after the peso crisis. Inflation, if not conquered, is under reasonable control; economic reforms have continued, despite the political temptations to abandon the market model; and exports have rebounded.

Mexico, the catalyst for the 1994-95 crisis, is in the forefront of the revival. It even managed to survive the confidence test of an election, in which the PRI party lost control of congress for the first time in 70 years.

Liquidity has played an important role in the rally with Latin America representing a favourite port of call for US investors tempted to take profits after Wall Street's phenomenal rise. That means that the region could be vulnerable if Wall Street plunges – causing investors to pull out of high risk areas – or if US interest rates rise substantially.

It would be foolish to think that all of Latin America's problems are behind it. In Brazil, the Bovespa index fell heavily last week as traders feared that the government would devalue the currency. Brazil still has a weak budget and balance of payments position and it had previously been the strongest of the region's markets so far this year; the temptation to take profits must be overwhelming.

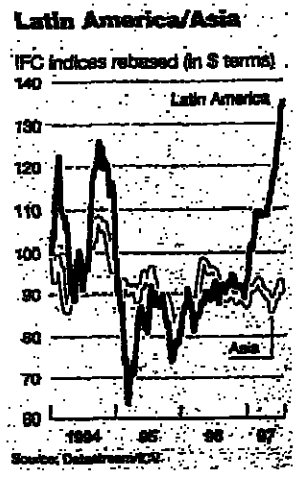
Another problem is that Latin America has flattered to deceive before. On several occasions in the last 100 years investors have piled capital into the region in the belief that it was about to fulfil its potential, only to be frustrated by debt repudiations and devaluations. Despite the relative change in fortunes over the last couple of years, Asian economic growth rates remain significantly higher than those in Latin America.

A function of the world's stock markets in the last couple of years has been that momentum, once established, is hard to stop. It has been better to stick with the winners than to try to "bottom fish" in the hope of finding value; until last week, Latin America was motoring. The key may be whether it quickly rebounds from the sudden plunge in Brazil, or whether the speculation reawakens fears about the region's stability.

In an extensive research note, HSBC James Capel argues that "although Asia is cheap on virtually all absolute historic valuation measures and also cheap relative to Latin America, it is difficult to argue that Latin America is absolutely expensive. Indeed, in terms of both the dividend yield ratio and the earnings yield ratio, Latin America still looks extremely attractive on a valuation basis. Asian markets are likely to continue to underperform within the emerging markets universe until the period of earnings downgrades is perceived to be over."

Latin America/Asia

IFC indices rebased (in $ terms)



Source: Datastream/ICV

Total return in local currency to 17/07/97

	% change over period US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.01	0.06	0.06	0.14	0.13
Month	0.47	0.05	0.26	0.28	0.57	0.55
Year	6.17	1.22	3.61	4.19	8.50	6.08
Bonds 3-5 year						
Week	0.28	0.08	-0.08	-0.07	0.03	0.38
Month	1.23	0.41	0.63	0.53	1.77	-0.01
Year	8.41	5.91	8.67	9.05	17.72	7.29
Bonds 7-10 year						
Week	0.44	0.13	0.12	0.11	0.21	0.48
Month	1.80	0.71	1.54	1.45	3.61	0.38
Year	10.39	10.64	13.29	13.69	28.61	12.35
Equities						
Week	2.1	4.1	5.5	1.0	8.5	3.8
Month	4.5	1.7	12.0	7.0	18.0	5.1
Year	49.3	-0.7	68.4	50.3	60.1	35.7

Source: Cash & Bonds - Lehman Brothers. Equities-D FT/Excel Index Unit.
The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Compiled By AFX News

Volvo set to benefit from large capital gain

Volvo, the Swedish car and truckmaker, is expected tomorrow to report first-half pre-tax profit after exceptionals in the SKr7.3bn-SKr8.26bn ($1.06bn) range, up from SKr3.86bn a year earlier.

The estimates include a capital gain of SKr3.03bn from the sale of Volvo's stake in Pripp-Ringnes, and SKr221m from the sale of the stake in Scandinavian Airlines System.

Analysts expect Volvo Cars to report sharply higher first-half results, after a stable second quarter compared with a year earlier and strong first-quarter gains.

They said the key issue will be how Volvo Trucks was developing in North America, and whether the company was closer to solving its problems there, with some analysts saying an acquisition by the unit could be imminent.

■ Siemens, the German electrical and electronics group, is expected today to report net profits of DM1.66bn-DM1.68bn for the nine months to June, slightly up from DM1.65bn a year earlier, with sales rising from DM64.5bn to DM67.6bn-DM68.8bn.

Siemens predicted it would at least match last year's net profit of DM2.49bn on sales of DM94.4bn. A faster rise in sales in the nine-month period is partly due to the first-time consolidation of about DM700m in sales generated by postal automation operations acquired from Daimler-Benz unit AEG last year, said one analyst.

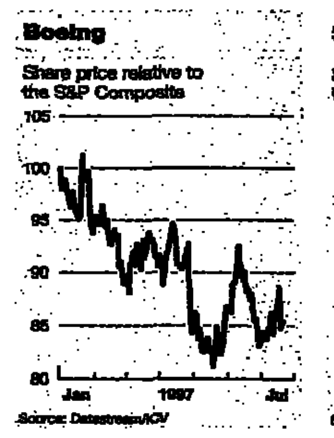
■ International Business Machines is expected today to reveal a rise in second-quarter earnings per share of $1.33-$1.50, up from $1.26 a year earlier, driven by continued solid growth in services and hardware and some possible improvement in European PC performance.

Its hardware business should continue to perform above industry average growth given positive reaction to the high-end UNIX systems.

The stronger dollar will continue to be a factor for IBM going forward, given the 4 percentage point impact on its first-quarter earnings, but analysts said the impact in the second quarter is difficult to estimate.

Boeing

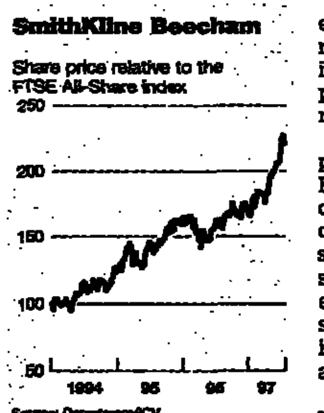
Share price relative to the S&P Composite



Source: Datastream/ICV

SmithKline Beecham

Share price relative to the FTSE All-Share Index



Source: Datastream/ICV

■ Boeing is expected to report second-quarter earnings per share of 60 cents tomorrow, up from 42 cents a year earlier, with most of the improvement deriving from a surprisingly large number of aircraft deliveries during the recent quarter.

"The expected quarterly results improvement is based mainly on a brisk delivery schedule," said one analyst. During the recent quarter, Boeing said it delivered 93 of the 340 aircraft it expects to deliver this year; in the first quarter, it delivered just 69.

Meanwhile, McDonnell Douglas Corp, Boeing's intended merger partner, is expected to report a more modest year-on-year improvement in quarterly profits when it releases its results on Thursday.

A survey of 11 analysts produced a second-quarter EPS mean estimate of 95 cents. A year earlier the company earned 87 cents per share. McDonnell Douglas should see its booster rockets development costs subside, and its earnings improve, during the third and fourth quarters.

■ Banco Central Hispanoamericano will on Thursday report first half net profit after minorities of Pta23.5bn-Pta27.9bn ($185m) up from Pta20.42bn a year earlier, according to analysts' estimates.

Earnings growth will be fuelled by a strong performance from domestic operations, where the structure of its loans and deposits are weighted so that net income margins improve as short-term interest rates decline.

Since the beginning of the year, the Bank of Spain has cut its key interest rate by 1 percentage point to 5.25 per cent.

With the bank's shares trading at above Pta6,000, BCH may announce a 2-for-1 stock split, analysts said, noting that the bank has expressed its interest in undertaking such an operation.

■ Banco Bilbao Vizcaya is expected to report a first-half net profit after minorities of Pta57.3bn-Pta60bn ($397m), up from Pta46.2bn a year earlier, according to analysts' forecasts.

BBV's results will continue to show sustained profit growth, with first half earnings boosted by a sharp rise in revenue from treasury operations, analysts said. They added that the increasing contribution from its Latin American operations, as well as the consolidation of BBV's industrial holdings through the equity accounting method, will help boost net interest income.

■ SmithKline Beecham's second-quarter results on Tuesday should provide a further demonstration of both the effect of a strong pound on the financial performance of multinationals, and of the increasing profitability of pharmaceuticals companies.

Second-quarter turnover is set to fall slightly from £1.92bn to £1.85bn ($3.08bn) thanks largely to the continued strength of sterling, especially against continental European currencies. Pretax profits should be about £370m, up from £342m.

INTERNATIONAL EQUITIES By Vincent Boland

Mandate pressure raises hackles

Possession might be nine-tenths of the law, but it does not guarantee that investment bankers can sleep easily at night.

The spat between Salomon Brothers and BZW over the latter's role in the flotation of Formula One Holdings offers an insight into the insecurities of investment bankers when their mandates are threatened.

Tensions in the equity underwriting business are particularly acute, with banks operating at razor-thin margins. Although fees in the European corporate sector have not fallen to the levels banks are prepared to accept in emerging markets, competition is still fierce. In a business where some 70 banks are competing for mandates, compared to just 20 two years ago, hackles are easily raised.

Salomon, global co-ordinator for the FOH issue, had threatened to remove BZW from the flotation syndicate unless it stopped talking with BSkyB, its client, about taking an equity stake prior to the flotation. The UK bank's apparent dual role raised questions about conflict of interest, Salomon claimed, and was "very un-blue chip behaviour".

After talks on Wednesday, however, Salomon backed down, accepting that there had been a misunderstanding. Unusually, it issued an apology admitting that: "BZW has acted entirely properly and we regret any imputation to the contrary."

The particular features of the dispute aside, bankers said it highlighted the intense pressure among investment banks aspiring to close the gap with "bulge bracket" global participants, a largely self-appointed club of US houses which dominate the top end of the underwriting business. Neither Salomon nor BZW is a member, though the former claims to be closing the gap quickly with its bigger rivals.

Some banks have built equity capital markets teams at substantial cost, usually by poaching personnel from rivals, and are now under intense pressure to perform. That will be easier for some than for others, as recent problems at NatWest Markets suggest.

"NatWest has put a lot of scrutiny, externally and internally, on cost and performance," said a London-based executive at a US investment bank. "This has happened earlier than I expected. I thought it might take another year."

The dispute also demonstrates the extent to which an investment bank's appointment to lead-manage a primary equity issue in Europe can still be vulnerable up to the pre-marketing stage.

"In the US, once a filing is made with the SEC, that's it, you have either won or lost a mandate," said an executive at another US bank. Ground rules can be more difficult to establish in the more diverse European market, and banks often seek a "letter of engagement" from a client setting out an investment bank's precise role. That "draws a line in the sand," the banker said.

Most investment bankers agree there is more business than ever to be won, as privatisations and corporate restructurings continue and valuations rise.

In a business hitherto accused of excessive discretion, this cut-throat competition suggests investment banks might now be more willing to tread on rivals' toes.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JULY 18 1997 US Dollar Index	%chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	THURSDAY JULY 17 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (78)	234.83	5.8	207.92	171.47	218.62	211.06	13.6	3.61	231.49	205.34	169.87	215.69	209.34	243.87	190.90	191.86
Austria (25)	203.31	7.1	180.01	148.45	189.27	189.14	24.4	1.74	203.15	180.20	149.07	189.28	189.15	203.31	174.70	179.18
Belgium (29)	252.21	10.8	223.31	184.16	234.80	230.01	29.0	2.97	254.68	225.91	186.88	237.30	232.46	281.11	206.88	209.34
Brazil (30)	268.43	41.5	237.67	196.00	249.90	534.22	47.3	1.37	280.82	248.10	206.06	261.65	558.42	322.44	170.26	176.52
Canada (127)	219.58	15.7	194.40	160.32	204.40	218.82	18.0	1.67	220.34	195.45	161.88	205.30	219.66	220.92	154.12	158.69
Denmark (32)	414.05	17.6	366.59	302.33	385.46	384.06	36.0	1.33	421.25	373.68	309.10	392.49	391.13	421.25	303.46	306.19
Finland (28)	309.14	25.9	273.72	225.73	287.80	343.27	44.5	1.60	314.06	278.58	230.45	292.62	348.59	314.06	186.67	191.08
France (84)	226.05	5.6	200.15	165.06	210.45	214.55	22.9	2.46	231.78	205.59	170.08	215.96	220.18	237.57	188.94	191.17
Germany (59)	231.96	22.1	205.37	169.37	215.94	215.94	41.9	1.31	233.51	207.13	171.35	217.57	217.57	233.51	168.70	171.82
Hong Kong, China (66)	532.87	5.1	471.80	389.09	496.08	530.10	5.3	2.86	530.78	470.82	389.48	494.55	528.04	539.63	407.55	416.45
Indonesia (27)	235.15	3.0	208.20	171.70	218.91	363.52	9.9	1.79	239.46	212.41	175.72	223.12	363.58	254.90	183.62	205.05
Ireland (17)	374.03	13.7	331.16	273.11	348.20	351.84	28.5	2.73	374.84	332.49	275.05	349.25	351.65	374.84	270.08	271.91
Italy (56)	102.92	23.3	91.13	75.15	95.81	134.12	41.5	1.84	105.42	93.51	77.35	98.22	137.19	105.42	73.26	78.35
Japan (485)	137.32	6.4	121.58	100.27	127.84	100.27	6.9	0.79	138.08	122.44	101.28	128.61	101.28	150.97	107.57	150.71
Malaysia (107)	460.21	-23.7	407.47	336.04	428.44	466.68	-20.5	1.47	465.49	412.90	341.57	433.71	464.32	650.85	460.21	556.41
Mexico (27)	1677.76	37.5	1485.49	1225.07	1561.93	14524.61	38.4	1.29	1720.24	1525.60	1262.29	1602.82	14791.75	1736.93	1121.58	1161.18
Netherlands (19)	417.31	24.1	369.49	304.72	388.50	383.94	44.7	2.03	423.79	375.92	310.97	394.87	390.43	427.48	279.88	287.48
New Zealand (14)	90.03	-1.9	79.71	65.74	83.81	73.26	6.2	3.96	91.58	81.23	67.20	85.33	74.10	96.47	79.04	79.04
Norway (41)	321.81	8.9	284.93	234.98	299.59	323.27	26.2	1.90	325.87	289.06	239.12	303.63	327.64	328.60	246.04	247.94
Philippines (22)	153.48	-24.6	135.89	112.07	142.88	214.97	-19.5	0.88	146.68	130.11	107.63	136.67	209.36	214.07	138.54	209.56
Singapore (42)	378.09	-8.9	334.76	276.08	351.99	255.57	-5.6	1.19	376.54	334.00	276.30	350.84	253.25	448.01	360.08	395.32
South Africa (44)	359.61	12.9	318.40	262.56	334.78	358.69	10.2	2.41	361.46	320.62	265.23	336.78	359.90	370.12	301.49	348.29
Spain (33)	256.16	16.6	226.81	187.05	238.48	292.61	35.1	2.26	262.86	233.18	192.66	244.91	300.64	276.05	171.91	178.42
Sweden (49)	503.50	19.3	445.80	367.66	468.74	579.77	38.0	1.78	511.32	453.55	375.20	476.42	588.50	511.95	334.35	341.07
Switzerland (33)	314.00	31.8	278.02	229.28	292.33	286.93	44.5	1.17	319.04	283.00	234.11	297.26	293.07	329.59	231.69	244.76
Thailand (42)	62.20	-35.1	55.07	45.42	57.91	73.50	-22.9	4.21	63.74	56.53	46.77	59.39	74.74	158.78	47.55	158.61
United Kingdom (213)	319.93	13.0	283.26	233.61	297.84	283.26	15.5	3.58	323.63	287.07	237.47	301.54	287.07	325.28	231.01	231.33
USA (643)	371.41	23.1	328.85	271.20	345.77	371.41	23.1	1.65	377.63	334.97	277.10	351.85	377.83	379.67	254.79	261.88
Americas (827)	339.67	23.0	300.74	248.02	316.22	286.02	23.1	1.65	345.29	306.28	253.37	321.72	290.74	347.34	233.09	239.54
Europe (716)	280.24	16.9	248.13	204.63	260.90	263.35	28.8	2.44	284.31	252.19	208.63	264.91	267.58	264.44	204.71	208.04
Nordic (150)	431.16	18.8	381.75	314.83	401.39	433.79	36.0	1.70	437.88	388.41	321.31	407.99	440.49	437.89	281.46	298.41
Pacific Basin (881)	154.76	4.1	137.03	113.01	144.08	114.42	4.5	1.25	155.24	137.70	113.91	144.64	115.16	163.63	127.18	163.06
Euro-Pacific (1599)	207.15	11.1	183.41	151.25	192.84	170.45	17.3	1.92	209.12	185.50	153.45	194.85	172.48	209.12	173.55	161.69
North America (770)	362.09	22.7	320.60	264.39	337.09	361.26	22.7	1.65	367.92	326.35	268.97	342.80	367.11	369.88	248.65	255.57
Europe Ex. UK (505)	252.47	19.3	223.54	184.35	235.04	245.63	37.0	1.81	256.56	227.58	188.26	239.05	249.93	256.56	185.65	190.18
Pacific Ex. Japan (396)	306.96	-2.6	271.80	224.15	285.78	274.71	1.0	2.72	305.88	271.32	224.45	285.00	273.29	320.65	269.97	278.27
World Ex. US (1827)	210.82	11.8	186.66	153.94	196.27	177.17	17.5	1.90	212.89	188.83	156.21	198.35	179.28	212.89	178.94	152.92
World Ex. UK (2257)	256.43	17.2	227.04	187.24	238.73	227.88	20.4	1.59	259.61	230.46	190.65	242.06	230.92	260.18	199.58	204.83
World Ex. Japan (1985)	325.74	19.0	288.41	237.85	303.25	316.81	23.1	1.86	330.48	293.14	242.50	307.92	321.54	331.60	233.10	238.39
The World Index (2470)	261.89	18.6	231.87	191.23	243.81	232.93	20.0	1.78	265.30	235.33	194.67	247.19	236.22	265.77	202.32	207.16

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local). Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 148.84 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 184.40 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 18/7/97: Deletion: Allmerica Property & Casualty (USA). Name changes: AMBAC Inc to AMBAC Financial Group (USA) and [illegible] (France). CONSTITUENT CHANGES WITH EFFECT 21/7/97: Deletions: Telecom Italia (Ordinary and Savings Non/Cv.) (Italy). Name changes: STET (Ordinary and Savings Non/Cv.) to Telecom Italia SpA (Ordinary and Savings Non/Cv.) (Italy). PLEASE NOTE: Amendments to Indices 18/7/97 applied to New Zealand, Philippines, Singapore, South Africa, Sweden, Thailand, related regional indices and The World Index.

CONSIGLIO DI BORSA
ITALIAN STOCK EXCHANGE COUNCIL

NOTICE
OF THE PRIVATE PLACEMENT, BY MEANS OF COMPETITIVE TENDER, OF THE ENTIRE SHARE CAPITAL OF BORSA ITALIANA S.P.A.

1. Description of the offer

In accordance with art. 56(5) of legislative decree no. 415 of 21 July 1996 (hereinafter the "Decree"), *Consiglio di Borsa* (the Italian Stock Exchange Council, hereinafter the "Stock Exchange Council") intends to dispose of its holding of the entire share capital of Borsa Italiana S.p.A. (hereinafter "Borsa Italiana"), a joint stock company incorporated under the laws of the Republic of Italy on 7 February 1997, with an issued and outstanding share capital of ITL 2,000,000,000 (two billion), fully paid-up, divided into 2,000,000 (two million) ordinary shares of nominal value ITL 1,000 (one thousand) each (hereinafter the "Shares"). Borsa Italiana (to which the Stock Exchange Council, on 27 March 1997, conferred the assets and legal relationships connected to the organisation and management of the securities markets) has, as its principal objects, the organisation and management of the Italian stock exchange (hereinafter the "Stock Exchange "), the *Mercato Ristretto*, the market for the trading of the financial instruments referred to in article 1, paragraphs 1(f) and (i) of the Decree (the Italian Derivatives Market or "IDEM") as well as, more generally, the markets for the trading of other financial instruments defined under Italian and European Union legislation.

The disposal of the entire share capital of Borsa Italiana shall take place through a private placement (hereinafter the "Private Placement"), in the form of a single competitive tender (hereinafter the "Tender"), pursuant to the provisions set out in the decree dated 4 July 1997 issued by the Ministry of the Treasury of the Republic of Italy (hereinafter the "Ministry of the Treasury") and in accordance with the terms and conditions set out in paragraph 3 below.

Interested parties which fall within one of the categories set out in paragraph 2 below may participate in the Tender by submitting binding and irrevocable offers for the acquisition of Shares.

Shares of Borsa Italiana shall be sold in minimum lots of 1,000 (one thousand) Shares per lot (each a "Lot"), equivalent to 0.05 (zero point zero five) per cent. of the share capital of Borsa Italiana. No offeror will be allocated more than 100 (one hundred) Lots, equivalent to 5 (five) per cent. of the share capital of Borsa Italiana. The offer price for each Lot shall in no event be inferior to ITL 20,000,000 (twenty million).

The financial and legal advisers to the Stock Exchange Council in connection with the Private Placement are respectively:

KPMG Consulting S.p.A.	Grimaldi e Clifford Chance
Via Vittor Pisani 25	Via Gesù 3
20124 Milan, Italy	20121 Milan, Italy

2. Parties which may participate in the private placement

Parties which, as at the date of submission of their offer for the Shares, fall into any of the following categories may participate in the Private Placement.

(a) Italian securities dealing firms (*società di intermediazione mobiliare* or "SIMs") and non-EU investment firms duly enrolled in the register referred to in article 9(1) of the Decree, which are authorised to deal in financial instruments on the Italian securities markets for their own account and/or on behalf of third parties in accordance with article 21 of the Decree;

(b) EU investment firms duly enrolled in the annex to the register referred to in article 9(1) of the Decree, which are authorised to deal in financial instruments on the Italian securities markets for their own account and/or on behalf of third parties in accordance with article 21 of the Decree;

(c) Italian banks and Italian branches of EU or non-EU banks duly enrolled in the register referred to in article 13(1) of legislative decree no. 385 of 1 September 1993 ("Decree 385/1993"), which are authorised to deal in financial instruments on the Italian securities markets for their own account and/or on behalf of third parties in accordance with article 21 of the Decree;

(d) EU banks in respect of which the competent authorities of their home country have submitted to the Bank of Italy the relevant notification referred to in article 16(3) of Decree 385/1993 in connection with the dealing in financial instruments by such entities for their own account and/or on behalf of third parties, as well non-EU banks which are authorised in accordance with article 16(4) of Decree 385/1993 to deal in financial instruments on the Italian securities markets for their own account and/or on behalf of third parties in accordance with article 21 of the Decree;

(e) licensed stockbrokers (*agenti di cambio*) enrolled in the national register kept by the Ministry of the Treasury, with the exception of those parties which have applied for their withdrawal from the register;

(f) management companies of open-ended collective investment funds authorised in accordance with article 1 of Law no. 77 of 23 March 1983;

(g) management companies of closed-ended collective investment funds authorised in accordance with article 1 of Law no. 344 of 14 August 1993;

(h) investment companies with variable share capital (*società di investimento a capitale variabile* or "SICAV") authorised in accordance with legislative decree no. 84 of 25 January 1992;

(i) SIMs, EU and non-EU investment firms duly registered in the register or the annex referred to in article 9(1) of the Decree but which do not fall within categories (a) and (b) of this paragraph 2;

(j) Italian banks and Italian branches of EU and non-EU banks duly registered in the register referred to in article 13(1) of Decree 385/1993, EU banks in respect of which the competent authorities of their home country have sent to the Bank of Italy the notification referred to in article 16(3) of Decree 385/1993, as well as non-EU banks authorised in accordance with article 16(4) of Decree 385/1993, in each case which do not fall within categories (c) and (d) of this paragraph 2;

(k) insurance companies whose registered offices are situated in Italy and insurance companies with registered offices in a non-EU member state, in each case which are authorised by *Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo* (the Italian Institute for the Supervision of Private and Public Insurance Companies) in accordance with legislative decree no. 174 of 17 March 1995 ("Decree 174/1995") and legislative decree no. 175 of 17 March 1995 ("Decree 175/1995");

(l) insurance companies whose registered offices are situated in a EU member state which are qualified to carry out activities in Italy pursuant to the permanent establishment rule in accordance with the provisions set out in article 69(2) of Decree 174/1995 and article 80(3) of Decree 175/1995;

(m) insurance companies whose registered offices are situated in a EU member state which are qualified to carry out activities in Italy pursuant to the principle of freedom to provide services in accordance with the provisions set out in article 70(2) of Decree 174/1995 and article 81(3) of Decree 175/1995;

(n) companies and entities which are issuers of securities traded on the Stock Exchange and the *Mercato Ristretto*, with the exception of:
- the Italian Treasury;
- companies and entities whose securities are suspended from trading;
- parties which fall within any of the categories (a) to (m) of this paragraph 2

(o) companies entirely owned by parties which fall within any of the categories set out above, which have as their exclusive or prevalent corporate objects the acquisition of shareholdings in management companies of regulated securities markets.

Parties which are subject to extraordinary or liquidation proceedings by the competent supervisory authorities or to any of the procedures set out in decree no.267 of 16 March 1942 may not participate in the Private Placement.

51 per cent. of the share capital of Borsa Italiana shall be reserved in the Private Placement to offerors which fall within categories (a), (b), (c), (d), and (e), of this paragraph 2, whereas the remaining 49 per cent. of the share capital may be allocated to parties which fall within any of the categories (a) to (o) inclusive of this paragraph 2.

For further information in relation to the Private Placement, please contact:

Consiglio di Borsa - Piazza degli Affari, 6 - 20123 Milan
Tel: + 39 2 72 42 63 77 or + 39 2 72 42 62 69 - Fax: + 39 2 72 42 62 86
Dott. Paolo Ciccarelli Dott. Giampaolo Ferrari Dott.ssa Gisella Introzzi

3. Procedures of the Private Placement

During the period commencing 21 July 1997 up to and including 26 August 1997, interested parties may obtain from the Stock Exchange Council at Piazza degli Affari 6, Milan (Italy) information relating to Borsa Italiana, subject to the delivery, by hand or by fax, of the application form which contains a confidentiality undertaking. Application forms may be obtained from the Stock Exchange Council. Alternatively, application forms may be sent to interested parties by fax upon request to be made either by telephone or by fax to the above numbers.

Information to be supplied will include, *inter alia*:

(i) an information memorandum on Borsa Italiana prepared by the Stock Exchange Council and Borsa Italiana in connection with the Private Placement;

(ii) the By-Laws and Deed of Incorporation of Borsa Italiana;

(iii) a sample form of offer.

Interested parties may submit only a single offer (hereinafter the "Offer"), set out in the form of the sample referred to in sub-paragraph (iii) above and containing, *inter alia*, details of the offeror, the number of Lots requested and the relative unit price per Lot. Such unit price must be the same for all of the Lots requested.

The Offer shall be binding on the offeror notwithstanding that the offeror is not allocated all of the Lots requested by it, and shall be unconditional, irrevocable and valid up until 3 October 1997.

The Offer must contain an undertaking by the offeror to subscribe for increase(s) in share capital, in proportion to the Shares allocated to it, in order that the capital of Borsa Italiana may be increased to up to ITL 10 billion in accordance with article 5 of the By-Laws of Borsa Italiana and in compliance with article 3(1) of *Commissione Nazionale per le Società e la Borsa* (the Italian Stock Exchange Supervisory Authority or "CONSOB") resolution no. 10247 of 1 October 1996 pursuant to which the minimum capital of management companies of the securities markets must not be inferior to ITL 10 billion. The offeror shall also undertake, in the event of any sale by it of Shares allocated to it prior to such share capital increase, to procure that the relevant transferee or assignee subscribe for such share capital increase or, failing which, to subscribe for such share capital increase itself.

For the purpose of participating in the Tender, each offeror must deposit in an escrow account, with a primary Italian bank or an Italian branch of a primary foreign bank (in each case other than the offeror itself), in favour of the Stock Exchange Council an amount not inferior to the overall offer price for the requested Lots (the "Escrow Deposit"). Simultaneously, the offeror shall give such bank or branch an irrevocable instruction in accordance with article 1723(2) of the Italian Civil Code (the "Irrevocable Instruction"), to pay to the Stock Exchange Council an amount, out of the Escrow Deposit, equivalent to the overall price of the Lots allocated to the offeror, by such means and within such period specified by the Stock Exchange Council in the allotment notification to be sent pursuant to the provisions herein. The Stock Exchange Council hereby declares its interest in accordance with the provisions set out in article 1773 of the Italian Civil Code in connection with the constitution of the Escrow Deposit. Such Escrow Deposit and the Irrevocable Instruction must be valid for a minimum duration of up until 3 October 1997.

Commencing from 9.00 a.m. (Italian time) on 2 September 1997 and up to 12.00 noon (Italian time) on 8 September 1997, parties interested in acquiring Shares of Borsa Italiana must send the following documents, in a closed envelope which reads "*Offerta per l'acquisto delle azioni della Borsa Italiana S.p.A.*" (Offer to purchase Shares of Borsa Italiana S.p.A.), addressed to the Stock Exchange Council, c/o Dott. Alfonso Ajello, Studio Notaio Ajello-Sormani, Via Cordusio 2, Milan, Italy:

(i) the Offer, duly completed and executed by the legal representative of the offeror;

(ii) declaration by the legal representative of the offeror, with the signature of the legal representative duly authenticated by a notary public, stating: (i) which of the categories in paragraph 2 above the offeror belongs to; and (ii) that the offeror is not subject to any extraordinary or liquidation proceedings by the competent supervisory authorities or any of the procedures set out in decree no. 267 of 16 March 1942; and

(iii) a letter issued by a primary Italian bank or an Italian branch of a primary foreign bank confirming that the offeror has made an Escrow Deposit with such bank or branch as well as a grant of an Irrevocable Instruction by the offeror in relation to such deposit, in each case as set out above in this paragraph 3. Such letter of confirmation should furthermore state that the bank or branch acknowledges, in accordance with article 1773 of the Italian Civil Code, the interest of the Stock Exchange Council in connection with the constitution of the Escrow Deposit.

Alternatively, the document referred to in sub-paragraph (iii) above may be sent to the Stock Exchange Council, c/o Studio Notaio Alfonso Ajello, in a closed envelope which reads "*Offerta per l'acquisto delle azioni della Borsa Italiana S.p.A. - Deposito vincolato*" (Offer to purchase Shares of Borsa Italiana S.p.A. - Escrow Deposit) before 12.00 noon (Italian time) on 9 September 1997.

Offers which are submitted after the deadlines mentioned above, or in respect of which the relative form of offer has not been duly completed, or in relation to which any of the requested documentation is lacking, will not be taken into consideration for the purposes of the allocation.

Any Offer in respect of which the relative form of offer is completed in a language other than the Italian language will not be taken into consideration.

The documents referred to in sub-paragraphs (ii) and (iii) above should be written in Italian. If they are written in a language other than Italian, such documents must be accompanied by a sworn Italian translation of their contents.

Offers submitted on behalf of third parties will not be taken into consideration.

4. Allocation

Upon expiry of the deadline of 12.00 noon (Italian time) on 9 September 1997, the Stock Exchange Council acting through its legal representative, in the presence of the inspection committee (*Comitato di riscontro*) referred to in the decree of the Ministry of the Treasury dated 28 February 1996, shall proceed to select the allottees and to draw up the allocation list.

Allocation of the Lots shall be made on the basis of the unit price indicated by each participant, in descending order of the unit prices offered, subject to the allocation of 1,020 Lots (equivalent to 51% of the share capital of Borsa Italiana) to offerors which fall within categories (a), (b),(c), (d), and (e) of paragraph 2 above.

Where there is an excess of demand with respect to the reserved Lots or the overall Lots offered, Shares will be allocated, in the event of an equality in unit prices offered, to the offeror which has requested the greater (or greatest) number of Lots. In the event of any further ties, lots will be drawn at random in such a manner as to enable proper verification, including the fairness, of the allocation procedure.

Any Lots which have not been allocated shall revert to the Ministry of the Treasury which shall arrange for their placements at such time and in such a manner as it deems suitable.

Allocation, as well as preparation of the allocation list, shall take place in the presence of notary public Alfonso Ajello who shall also draw up minutes to record the allocation process followed. A copy of the minutes and the allocation list shall be sent to the provisional director of Borsa Italiana, the Ministry of the Treasury and CONSOB the latter of which shall ascertain that the allottees satisfy the integrity requirements.

Parties which have been allocated Lots pursuant to the minutes must pay the relevant price within 5 business days from receipt of the allocation notification to be sent by the President of the Stock Exchange Council to the allottees and the banks/branches which have received the Irrevocable Instructions by fax (such notification by fax to be followed by registered letter with acknowledgement of receipt). Following payment of the relevant price, the allottees shall be registered in the register of shareholders of Borsa Italiana.

In the event that payment of the price for the Shares is not made for any reason whatsoever within the above-mentioned period, the Stock Exchange Council shall, without prejudice to any right of claim against the non-performing offeror for the recovery of damages, declare the forfeiture by the allottee of its right to acquire the Shares in question. The Stock Exchange Council shall forthwith proceed to allocate such Shares to the offerors which follow on the allocation list and shall notify the Ministry of the Treasury, the provisional director of Borsa Italiana and CONSOB accordingly.

This Notice and the receipt of any Offer by the Stock Exchange Council does not constitute, in any circumstances, any obligation or undertaking to transfer Shares by the Stock Exchange Council in favour of the offerors, nor shall it give rise to any claim or right of action by the offerors for the performance of any deed or action by the Stock Exchange Council on any ground whatsoever, including, without limitation, the reimbursement of expenses and costs and the payment of any amount whatsoever by the Stock Exchange Council.

This Notice does not constitute an offer to the public pursuant to article 1336 of the Italian Civil Code, or a solicitation of the public savings under article 1/18 of Law no. 216 of 7 June 1974, as subsequently amended and supplemented.

The Shares have not been and will not be registered in the United States and may not be offered or sold in the United States except pursuant to an exemption from such registration requirements.

The Shares may not be offered or sold, whether directly or indirectly, as part of their initial distribution or at any time thereafter to any individuals or legal entities located in the Netherlands and Germany other than individuals or legal entities which trade or invest in securities in the conduct of their profession or trade (which includes banks, brokers, dealers, insurance companies, pension funds, other institutional investors and commercial enterprises which regularly, as an ancillary activity, invest in securities).

The Shares do not comply with the condition imposed by French law for public offerings, solicitations and advertising within France and will not be offered, directly or indirectly to the public in France.

The Italian text of this Notice prevails over any other text published in a language other than the Italian language.

This Notice and the Private Placement referred to herein are governed by Italian law. The court of Milan shall have exclusive jurisdiction to determine any and all disputes arising out of or in connection with this Notice or the Private Placement.

Reference in this Notice to any law, decree or legislative decree is, unless otherwise stated, to such law, decree or legislative decree of the Republic of Italy, as subsequently amended or supplemented.

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jul 18		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.0955	+0.0214	857 - 053	21.2098	21.0612	21.0411	3.1	20.9284	3.2	20.423	3.2	101.9
Belgium	(BFr)	61.9193	+0.0611	710 - 676	62.2420	61.8030	61.7393	3.5	61.3693	3.6	59.6193	3.7	101.3
Denmark	(DKr)	11.4199	+0.0101	155 - 243	11.4809	11.3898	11.3884	3.3	11.3244	3.3	11.0329	3.4	103.5
Finland	(FM)	8.8593	+0.0201	529 - 656	8.9070	8.8360	8.8339	3.4	8.7814	3.5	8.5699	3.3	81.9
France	(FFr)	10.1310	+0.0094	269 - 351	10.1864	10.1038	10.098	3.9	10.041	3.6	9.7658	3.6	103.8
Germany	(DM)	2.9983	+0.0031	970 - 996	3.0154	2.9817	2.9889	3.7	2.9689	3.8	2.883	3.8	102.1

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.5989	-0.0105	960 - 017	12.6695	12.5780	12.5749	2.3	12.5259	2.3	12.3019	2.4	101.6
Belgium	(BFr)	36.9800	-0.032	600 - 000	37.1550	36.8950	36.905	2.4	36.7535	2.4	36.06	2.5	101.4
Denmark	(DKr)	6.8203	-0.0066	193 - 213	6.8545	6.8045	6.8086	2.1	6.7843	2.1	6.6779	2.1	102.7
Finland	(FM)	5.2910	+0.0022	885 - 935	5.3156	5.2795	5.2795	2.6	5.2559	2.7	5.162	2.4	81.4
France	(FFr)	6.0505	-0.0056	495 - 515	6.0822	6.0422	6.039	2.3	6.0152	2.3	5.9063	2.4	103.0
Germany	(DM)	1.7907	-0.0015	903 - 910	1.8005	1.7856	1.7869	2.6	1.7791	2.6	1.7441	2.6	101.7

[illegible]

WORLD INTEREST RATES

MONEY RATES

July 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter	Dis. rate	Repo rate
Belgium						6.00	2.50	-
week ago						6.00	2.50	-
France						3.10	-	4.75
week ago						3.10	-	4.75
Germany						4.50	2.50	3.00

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.23	94.23	-	94.24	94.23	45,368	537,182
Dec	94.05	94.06	-0.01	94.07	94.04	62,288	467,686
Mar	94.01	93.99	-0.03	94.02	93.98	79,801	324,425

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.88	94.89	-	94.90	94.88	480	7,875
Dec	94.74	94.75	-	94.77	94.74	27	599

All Open Interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

Pound in New York

Jul 18	Close	Prev. close
£ spot	1.6800	1.6735
1 mth	1.6783	1.6719
3 mth	1.6746	1.6682
1 yr	1.6574	1.6515

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	Scottish Widows Bank	6.75
Allied Irish Bank (GB)	6.75	Exeter Bank Limited	7.75	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	Financial & Gen Bank	7.50	●Smith & Williamson Secs	6.75
Bank of Baroda	6.75	●Robert Fleming & Co	6.75	Sun Banking Corp Ltd	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	TSB	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	United Bank of Kuwait	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Unity Trust Bank Plc	6.50
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Western Trust	6.50
Bank of Scotland	6.75	C. Hoare & Co	6.75	Whiteaway Laidlaw	6.75
Barclays Bank	6.75	Hongkong & Shanghai	6.75	Yorkshire Bank	6.75
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75	● Members of London Investment Banking Association	
Citibank NA	6.75	●Leopold Joseph & Sons	6.75	* In administration	
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Midland Bank	6.75		
Coutts & Co	6.75	NatWestminster	6.75		
Cyprus Popular Bank	6.75	●Rea Brothers	6.75		
		Royal Bk of Scotland	6.75		

OTHER STATISTICS

STOCK INDICES

[illegible]

RIGHTS OFFERS

[illegible]

p/m premium.

LONDON RECENT ISSUES: EQUITIES

[illegible]

BANK RETURN

BANKING DEPARTMENT — Wednesday July 16, 1997 — Increase or decrease for week

[illegible]

ISSUE DEPARTMENT

[illegible]

FTSE GOLD MINES INDEX

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Den norske Bank

(Formerly Bergen Bank A/S)

(Incorporated in the Kingdom of Norway with limited liability)

U.S.$75,000,000

Floating Rate Notes Due 1997

(with the right to subordinate)

Notice is hereby given that the Interest payable on the relevant Interest Payment Date, August 18, 1997 for the period February 18, 1997 to August 18, 1997 against Coupon No. 24 in respect of U.S.$5,000 nominal of the Notes will be U.S.$151.17 and in respect of U.S.$250,000 nominal of the Notes will be U.S.$7,558.50.

July 21, 1997, London
By: Citibank, N.A. (Corporate Agency & Trust), Agent Bank **CITIBANK**

EMERGING MARKETS By Geoff Dyer

Brazilian fall seen as correction

First the Czech Republic was forced to devalue its currency. Then came a clutch of Asian countries led by Thailand. Could Brazil, the powerhouse of the Latin American economy, be the next emerging market in the speculators' firing line?

After falling 15 per cent last week, the São Paulo stock market will be under intense scrutiny over the next few days. Its performance will determine whether the sharp drop last week was just the natural correction of a market which has soared since the beginning of this year, or whether a continued fall in share prices will start to erode the confidence of international investors in Brazil's new-look economy and put its currency under pressure.

The spotlight has turned on Brazil because it shares some of the problems of the Asian economies. Inflation is under control but Brazil is financing a large fiscal deficit with high interest rates and economists believe the currency is over-valued. Even the government admits this policy mix is not sustainable in the long-run.

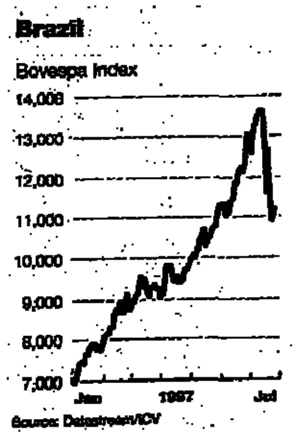
Brazil is also running a current account deficit expected to top 4 per cent of GDP this year – which means it needs inflows of more than $30bn to make up the difference. As a result, some economists believe the Real is a prime candidate for speculative attack.

However, most analysts say that, rather than acting as a warning signal about Brazil's economic fragility, the Asian crisis provided an excuse for a bout of profit-taking on the Brazilian market which, even after last week, is still more than 70 per cent up since January.

According to Mr Robert J. Pelosky, chief strategist for Latin America at Morgan Stanley in New York, last week's fall was "a healthy correction for a market which had run up too far".

Analysts believe the explanations for last week's share price plunge are economically benign. One of the main reasons for the market's rise this year has been the growth of the Brazilian retail equity investor.

Unusually for Latin America, Brazil has a huge mutual fund industry with an estimated $120bn in funds under management, but because of the high interest rates offered on government securities, these funds have traditionally focused on bond markets. At the end of last year, 96 per cent of



mutual fund assets were in fixed income funds.

Since the beginning of this year, retail investors have begun to pour money into equity funds because of soaring share prices. By May, 10 per cent of mutual fund assets were in equities. This shift in asset allocation, in turn, spurred the stock market to new heights.

However traders say that many of these new share tipsters took fright last week, initially because of the Asian currency crisis and then because of front-page headlines in Brazil when the market started to fall.

"There is no macroeconomic reason for the drop in the market. It has been prompted by small investors realising profits and taking money out of funds," says Mr Rodrigo Marques, analyst at Bozano Simonsen investment bank in Rio de Janeiro.

Privatisation, another driving force behind the market, also provided a pretext for selling last week Telebrás, the listed but state-controlled telecoms company, said it might slash tariffs for corporate customers to prepare for private sector competition. Telebrás is easily the most traded Brazilian stock and has a 45 per cent weighting on the São Paulo stock exchange's Bovespa index, so when it falls the market follows.

The drop in the market would be a serious economic headache if it was the result of foreign investors pulling out of the country. However, economists say there was a net inflow of funds into Brazil last week. Indeed, the Brazilian Central Bank was reported to have been buying dollars in the currency market in order the keep the Real below its upper trading band – not a sign of impending devaluation.

"This has been an internal play not connected to any shift in the sentiment of foreign investors," says Mr Carlos Kawall, economist at Citibank in São Paulo.

Mr Pelosky at Morgan Stanley adds: "There is a significant qualitative difference between the situation in the Philippines or Thailand and in Brazil, and this is increasingly understood by international investors." He points out that although the current account deficit is large, around 50 per cent of it will be financed by direct investment, which reduces Brazil's dependence on more volatile, short-term capital.

However, even the most optimistic observers do not discount more nervousness this week. According to Ms Luciana Portolano, head of equity research at HSBC James Capel in São Paulo: "The market will continue to be volatile for the next few days, but it is just a correction at this stage. The situation will not become a crisis unless the market receives some very bad news."

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	18/7/97	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (449)	188.92	−7.32	−3.73	+2.37	+1.27	+28.81	+17.99
Latin America							
Argentina (22)	131.83	−4.95	−3.62	−0.63	−0.48	+24.70	+23.05
Brazil (22)	388.93	−56.99	+12.78	−16.23	−4.01	127.90	+49.00
Chile (21)	220.67	−7.07	−3.10	+1.74	+0.80	+58.22	+35.84
Colombia (12)	239.68	−1.62	−0.67	−2.65	−1.09	+65.98	+37.99
Mexico (26)	113.54	−3.68	−3.14	+10.30	+9.98	+31.86	+39.01
Peru (12)	1,294.82	−82.15	−5.97	−81.51	−5.92	+287.61	+28.55
Venezuela (7)	91.16	−2.88	−3.06	+12.88	+16.45	+28.88	+46.62
Latin America (122)	201.02	−17.15	−7.86	+0.46	+0.23	+57.51	+40.06
Europe							
Czech Rep.(18)	75.80	−1.15	−1.50	−8.32	−9.89	−28.48	−27.31
Egypt (16)	193.93	−2.48	−1.26	−2.38	−1.21	+44.14	+29.47
Greece (19)	169.63	−7.55	−4.26	−5.33	−3.05	+57.32	+51.04
Poland (26)	283.62	−24.75	−8.03	−37.72	−11.74	−60.12	−17.49
Portugal (18)	198.57	−6.04	−2.95	+3.64	+1.87	+52.39	+35.84
Russia (9)	435.38	−17.14	−3.79	+82.56	+23.40	+256.35	+143.19
South Africa (26)	147.65	+1.39	+0.95	+2.83	+1.96	+17.77	+13.68
Turkey (27)	179.35	−8.31	−4.43	+19.38	+12.11	+54.31	+43.43
Europe (163)	*141.30*	*−2.41*	*−1.68*	*+3.51*	*+2.55*	*+22.96*	*+19.40*
Asia							
China (33)	72.67	+6.90	+10.50	+8.07	+12.48	+16.19	+28.67
Indonesia (26)	158.29	−5.94	−3.62	−6.23	−3.79	+1.86	+1.19
Korea (27)	92.57	−2.30	−2.43	−3.85	−3.99	+11.36	+13.98
Malaysia (20)	209.74	−10.91	−4.94	−25.07	−10.68	−70.68	−25.21
Pakistan (12)	87.28	+4.85	+5.89	+14.93	+20.63	+28.82	+49.31
Philippines (22)	247.39	+16.68	+7.23	−25.12	−9.22	−66.41	−21.16
Taiwan (30)	244.18	+7.89	+3.34	+29.19	+13.58	+58.76	+31.68
Thailand (28)	106.10	+4.28	+4.21	+20.76	+24.33	−49.06	−31.62
Asia (198)	214.05	+0.68	+0.32	+3.51	+1.67	−3.52	−1.62

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Krishna Guha and Edward Luce

Devaluation of baht sparks bout of jitters

"When your star pupil fails the exam, you start to worry." The forced devaluation of the Thai baht earlier this month has left fund managers – such as the one quoted above – fearful of a wider backlash against emerging markets.

Jitters about a possible contagion effect sparked heavy foreign selling of the Brazilian stock market, with the São Paolo stock index falling by 15 per cent last week. Argentina, sensing the volatility in the air, postponed its planned $750m global bond issue.

Bradys fell, recovered their poise, but fell again on Friday. Many investors are clearly nervous – citing spreads that have narrowed to levels not seen since just before the crash of 1994. Is history about to repeat itself?

Bulls argue that last week's wobble was no more than that – a short-term fluctuation in a volatile asset class, not the end of a secular trend, which has seen the J.P. Morgan emerging market bond index rise by 33 per cent in the past 12 months.

J.P. Morgan itself is "basically bullish" both in the short-term and on a 12-month view. On July 11 its emerging markets team upgraded its forecasts, predicting that the EMBI spread over Treasuries would fall to 350 points by October, and then to 310 by July 1998.

ANZ also expects prices to rise further. Mr Jerome Booth, chief economist, said there is "absolutely no question" of 1994 repeating itself. "The landscape has totally changed since then."

The bull case rests on fundamentals. Emerging market debt is being driven higher by "huge long-term trends" of structural reform and improvement in policy-making.

Over time, each borrower becomes more credit-worthy. Liquidity is a secondary, cyclical influence.

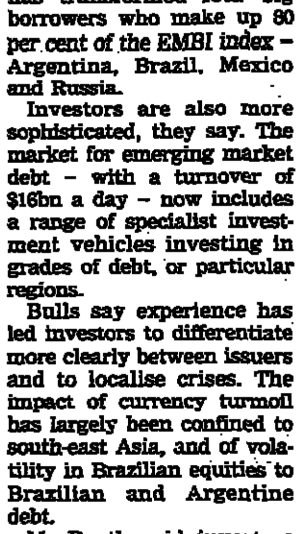
ANZ points out that while spreads over Treasuries have narrowed to 1994 levels, borrowers are now in much better shape, and merit tighter spreads than before. Reform has transformed four big borrowers who make up 80 per cent of the EMBI index – Argentina, Brazil, Mexico and Russia.

Investors are also more sophisticated, they say. The market for emerging market debt – with a turnover of $16bn a day – now includes a range of specialist investment vehicles investing in grades of debt, or particular regions.

Bulls say experience has led investors to differentiate more clearly between issuers and to localise crises. The impact of currency turmoil has largely been confined to south-east Asia, and of volatility in Brazilian equities to Brazilian and Argentine debt.

Mr Booth said investors now "probe weakness" in individual countries, rather than advancing and retreating from emerging markets en masse.

Even the most starry-eyed emerging markets enthusiast accepts that a rise in US



interest rates would deal a sharp short-term blow. Spreads could widen by as much as 100 points across the board. But, they claim, investors will buy back into the fundamental story. This is exactly what happened in March this year.

Both J.P. Morgan and ANZ have priced modest rises in US rates into their forecasts. They say a rise will not be unexpected (as in 1994) and would be small (25 or 50 basis points against 200 points last time). Global liquidity would still be supported by lax monetary policy in Japan and the EU.

But others are more cautious. Mr Thomas Trebat, managing director of emerging markets research at Citicorp, said the "hunger for yield" – which has pushed emerging market debt higher – is vulnerable to Fed rates. Spreads have narrowed "in some cases indiscriminately." Further tightening "makes me nervous", he said.

Some dismiss the argument that investors are more sophisticated than in 1994 – and more able to swallow a rise in interest rates or other shock.

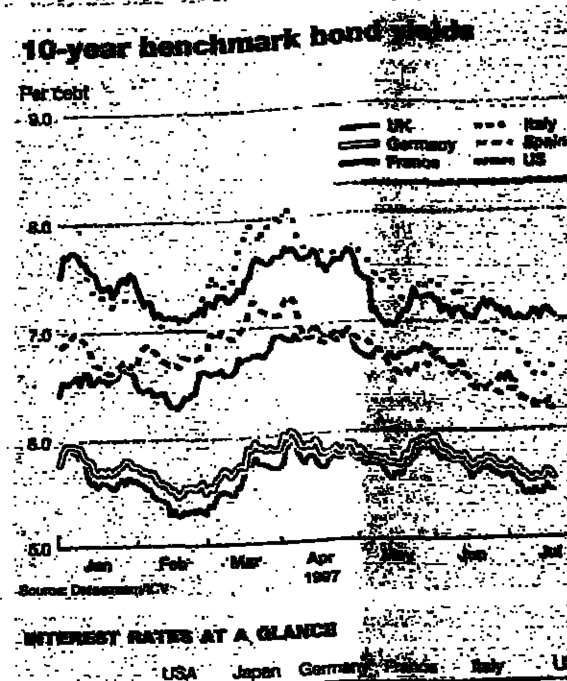
Much of the liquidity flowing into emerging market assets is from non-specialist investors – including US and EU institutions that have never dabbled in such paper before.

Turmoil in Brazil, Thailand and elsewhere may encourage these investors to book their profits. A nasty shock could cause them to sell sharply and indiscriminately. "We definitely predict a widening of spreads from here-on in," said Ms Juliette Sampson, strategist at Bank of America.

"It wasn't investors who learnt their lesson in 1994, it was the emerging market countries themselves," said Mr Lincoln Rathnam, president of Schooner Asset Management in Boston.

Mr Rathnam added that many US pension fund managers are starting to get nervous about emerging market valuations. And with Mr Alan Greenspan due to give his Humphrey-Hawkins lecture to Congress tomorrow, many are reserving their judgment.

"If Greenspan says anything about 'irrational exuberance' the market is going to panic," said Mr Rathnam.



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	[illegible]	6.75	[illegible]
Overnight	n/a	n/a	2.96	[illegible]	7.00	n/a
Three month	5.23	0.52	3.05	[illegible]	6.80	[illegible]
One year	5.68	0.59	3.26	[illegible]	[illegible]	[illegible]
Five year	6.14	1.57	4.44	[illegible]	6.05	7.14
Ten year	6.23	2.53	5.56	[illegible]	6.51	7.03

(1) France-Intervention rate. (2) UK-Base rate. Source: [illegible]

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Norddeutsche Landesbank	200	Aug 2000	6.00	99.50R	6.188	+8(6⅛May00)	Bear Stearns/NordLB
Aker RGI(a)$	100	Jul 2002	5.25	100.00	-	-	Lehman Brothers Intl
Ascot Capital(b)‡	100	Jul 1998	(b1)	100.011	-	-	BZW
Toyota Motor Corp	1bn	Jul 2002	6.25	99.55R	6.358	+10(6⅞Jun02)	CSFB/Merrill Lynch
Kellogg Co(l)	500	Aug 2001	6.125	99.701R	6.212	+7(6⅝May00)	Lehman/SBC Warburg
Cie Financière de CIC‡	400	Aug 1998	(c)	100.02R	-	-	UBS
Rabobank Nederland	250	Aug 2000	6.00	99.623R	6.140	[illegible]	SBC Warburg
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
SWISS FRANCS							
Bayerische Landesbank	150	Aug 2002	2.50	101.75	2.127	-	UBS
JP Morgan & Co(b,s)	200	Dec 2001	2.00	100.05	-	-	SBC/UBS
Cargill	150	Aug 2002	2.75	102.15	2.290	-	Merrill/SBC Warburg
ITALIAN LIRE							
Fiat Finance and Trade	300bn	Aug 2002	6.20	99.90R	6.224	+15(6½Mar02)	Credito Italiano
Crédit Local de France	300bn	Aug 2001	5.875	101.381	5.481	-	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONTRACTS & TENDERS

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

... spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly ... by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 16: ... table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

Jul 18	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8 - 6¾	6⅞ - 6½	[illegible]	[illegible]	7¼ - 7⅛	7½ - 7⅜
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	6⅞ - 6¾	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	6¼ - 6⅛	6⅜ - 6¼	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	6⅞ - 6⅜	6¾ - 6⅝	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from Jul 10, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Jul 18, 6.5774pc. ECGD fixed rate Stlg. Export Finance. Make up day Jun 30, 1997. Agreed rate for period Jul 26, 1997 to Aug 25, 1997, Scheme III 7.98pc. Reference rate for period May 31, 1997 to Jun 30, 1997, Schemes IV & V 6.738pc. Finance House Base Rate 7pc from Jul 1, 1997

BANK OF ENGLAND TREASURY BILL TENDER

	Jul 18	Jul 11		Jul 18	Jul 11
Bills on offer	£200m	£200m	Top accepted rate	6.5980%	6.6181%
Total of applications	£1178m	£1180m	Ave. rate of discount	6.5774%	6.5951%
Total allocated	£200m	£200m	Average yield	6.6871%	6.7054%
Min. accepted bid	£98.355	£98.350	Offer at next tender	£200m	£200m
Allotment at min. level	74%	31%	Min. accept. bid 92 days	-	-

Pound in New York

Jul 18	Close	Prev. close
£ spot	1.6800	1.6735
1 mth	1.6783	1.6719
3 mth	1.6746	1.6682
1 yr	1.6574	1.6515

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.23	94.23	-	94.24	94.23	[illegible]	[illegible]
Dec	94.06	94.06	-0.01	94.07	94.04	62,288	467,686
Mar	94.01	93.99	-0.03	94.02	93.98	79,801	324,425

US TREASURY BILL FUTURES (IMM) $1m per 100%

Sep	94.88	94.89	-	94.90	94.88	480	7,875
Dec	94.74	94.75	-	94.77	94.74	27	599

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	Scottish Widows Bank	6.75
Allied Irish Bank (GB)	6.75	Exeter Bank Limited	7.75	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	Financial & Gen Bank	7.50	●Smith & Williamson Secs	6.75
Bank of Baroda	6.75	●Robert Fleming & Co	6.75	Sun Banking Corp Ltd	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	TSB	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	United Bank of Kuwait	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Unity Trust Bank Plc	6.50
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Western Trust	6.50
Bank of Scotland	6.75	C. Hoare & Co	6.75	Whiteaway Laidlaw	6.75
Barclays Bank	6.75	Hongkong & Shanghai	6.75	Yorkshire Bank	6.75
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75	● Members of London Investment Banking Association	
Citibank NA	6.75	●Leopold Joseph & Sons	6.75	* In administration	
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Midland Bank	6.75		
Coutts & Co	6.75	NatWestminster	6.75		
Cyprus Popular Bank	6.75	●Rea Brothers	6.75		
		Royal Bk of Scotland	6.75		

OTHER STATISTICS

STOCK INDICES

[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
1200	Nil	8/8	117½pm	95pm	Brit Borneo Synd	99½pm	-½
270	Nil	5/8	70pm	45pm	HIT Enter	65pm	
20	Nil	28/7	27½pm	2¾pm	Mackie Intl	4½pm	-1
17.5	Nil	22/7	1¼pm	½pm	Marylebone Wrwk	½pm	
120	Nil	7/8	2¼pm	1¼pm	Tea Plantations	1¼pm	

pm premium.

LONDON RECENT ISSUES: EQUITIES

[illegible]

§55	F.P.	8.99	64½	57½	†Pyecraft & Arnold	57½		-	-	- 13.2
100	F.P.	32.8	112½	99½	Rasbourne Merlin	109		-	-	-
§	F.P.	68.9	227	204½	Royalblue Grp	208½		1.5	2.6	0.9 52.9
§100	F.P.	7.77	120½	109½	†SBS Group	109½		L2.4	2.0	2.7 19.3
•	F.P.	4,776	373½	291½	Woolwich	298½	-1½	L7.9	2.1	3.3 17.9

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

BANK RETURN

BANKING DEPARTMENT	Wednesday July 16, 1997	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,278,997,247	-39,458,686
Bankers deposits	2,650,455,601	+74,564,948
Reserve and other accounts	3,022,722,424	-230,422,344
	6,966,728,272	-195,316,082
Assets		
Government securities	1,395,371,305	+18,605,000
Advance and other accounts	5,042,860,177	+566,898,353
Premise, equipment and other secs	523,441,767	-774,724,866
Notes	4,926,595	-6,095,436
Coin	128,428	+867
	6,966,728,272	-195,316,082
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	21,785,073,405	-23,904,564
Notes in Banking Department	4,926,595	-6,095,436
	21,790,000,000	-30,000,000
Assets		
Other Government securities	17,665,091,989	+67,269,702
Other Securities	4,124,908,011	-97,269,702
	21,790,000,000	-30,000,000

FTSE GOLD MINES INDEX

	Jul 18	% chg since 31/12/96	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1403.54	-23.1	37.84	100.00	2.26	-	2074.61	1270.14
Regional indices								
Africa (14)	1434.77	-32.5	8.59	22.71	5.48	23.30	2775.96	1324.06
Australasia (6)	1567.39	-32.0	3.99	10.53	3.50	17.40	2455.10	1336.10
North America (11)	1394.23	-17.4	25.26	66.75	1.00	70.78	1861.48	1244.23

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UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

ENGINEERING, VEHICLES

HEALTH CARE - Cont.

HOUSEHOLD GOODS

EXTRACTIVE INDUSTRIES

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

Notes	Name	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
	Toronto-Dom C$	18½	4.1	1.12e	JaApJyOc	18.12	1207	
♥	Trans Can Pipe C$	12⅞	2.3	$1.10	JaApJyOc	28.6	–	
	Western Star Trucks C$	17½	1.5	–	–	–	–	

SOUTH AFRICANS

Name	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind R		528¼	–	0645c	φ	May Oct	2.9	–
Barlow	♣†	57½	11.4	0168c	3.3	Jan Jul	9.12	–
Gold Flds Prop R	†	178¼	0.9	085c	1.5	Feb Sep	2.95	–
SA Brews		516½	2.0	0287c	φ	Jul Feb	2.6	4113
Standard Bank		528¼	4.2	0407c	φ	Sep Mar	3.3	–
Tiger Oats	†	1030	2.8	0[illegible]c	2.8	Jan Jul	9.6	–
Tongaat-Hulett		735¼	1.2	0142c	φ	Jan Jul	17.6	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. v Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). O Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1428 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: London Town (AIM), SGB (BldC), AIT (SpSv). Deletions: Ropner (Dvin).

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

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Offshore Funds and Insurances

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LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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OTHER OFFSHORE FUNDS

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 18 / Sch)

BELGIUM/LUXEMBOURG (Jul 18 / Frs.)

CZECH REP (Jul 18 / Koruna)

DENMARK (Jul 18 / Kr)

FINLAND (Jul 18 / Mkk)

FRANCE (Jul 18 / Frs.)

GERMANY (Jul 18 / Dm.)

GREECE (Jul 18 / Drachma)

ITALY (Jul 18 / Lire)

NORWAY (Jul 18 / Kroner)

POLAND (Jul 18 / Zloty)

PORTUGAL (Jul 18 / Escudo)

SPAIN (Jul 18 / Pts.)

NETHERLANDS (Jul 18 / Fls.)

SWEDEN (Jul 18 / Kronor)

SWITZERLAND (Jul 18 / Frs.)

TURKEY (Jul 18 / Tk Lira)

PACIFIC

JAPAN (Jul 18 / Yen)

HONG KONG (Jul 18 / H.K.$)

INDONESIA (Jul 18 / Rupiah)

MALAYSIA (Jul 18 / MYR)

NEW ZEALAND (Jul 18 / NZ $)

SINGAPORE (Jul 18 / S$)

AUSTRALIA (Jul 18 / Aus$)

SOUTH KOREA (Jul 18 / Won)

TAIWAN (Jul 18 / TW $)

THAILAND (Jul 18 / Baht)

AFRICA

SOUTH AFRICA (Jul 18 / Rand)

INDICES

	Jul 18	Jul 17	Jul 16	1997 High	1997 Low
Argentina					
General(29/12/77)	22763.94	23118.31	23284.96	23654.12 11/7	0.00 9/7
Australia					
All Ordinaries(1/1/80)	2684.2	2699.7	2646.4	2745.90 2/7	2362.20 1/4
All Mining(1/1/80)	857.1	843.5	843.4	987.18 24/2	831.10 8/7
Austria					
Credit Aktien(30/12/84)	449.95	446.68	441.34	449.96 18/7	374.40 9/1
Traded Index(2/1/91)	1430.23	1429.29	1406.34	1430.23 18/7	1130.22 9/1
Belgium					
BEL20(1/1/91)	2494.03	2541.40	2531.11	2541.40 17/7	1971.05 2/1
Brazil					
Bovespa(29/12/83)	11182.0	11726.0	12641.0	13617.00 8/7	6955.50 2/1
Canada					
Metals & Minls(1975)	5076.09	5120.21	5169.91	6681.75 10/3	4945.96 11/4
Composite(1975)	6738.20	6755.10	6744.80	6755.10 17/7	5679.30 14/4
Portfolio(4/1/83)	3398.32	3421.60†	3432.27	3432.27 16/7	2846.02 11/4
Chile					
IGPA Gen(31/12/80)	5063.57	5708.88	5745.80	5866.71 4/7	4912.42 2/1
Denmark					
CopenhagenSE(3/1/83)	653.43	656.29	640.63	659.29 17/7	470.14 2/1
Finland					
HEX General(28/12/90)	3483.66	3532.87	3469.0	3532.87 17/7	2483.28 2/1
France					
SBF 250(31/12/90)	1890.32	1933.27	1949.73	1949.73 16/7	1533.19 2/1
CAC 40(31/12/87)	2876.69	2958.59	2989.01	2989.01 16/7	2256.97 2/1
Germany					
FAZ Aktien(31/12/58)	1404.98	1412.69	1403.69	1412.69 17/7	988.21 2/1
Commerzbank(1/12/53)	4129.6	4160.2	4133.2	4160.20 17/7	2875.80 2/1
DAX(30/12/87)	4196.53	4227.31	4201.24	4227.31 17/7	2848.77 2/1
Greece					
Athens SE(31/12/80)	1537.89	1556.46	1572.87	1727.70 23/5	954.54 2/1
Hong Kong					
Hang Seng(31/7/64)	15570.40	15706.29	15446.02	15706.29 17/7	12055.17 3/4
India					
BSE Sens.(1979)	(c)	4193.61	4183.42	4404.89 9/7	3225.24 2/1
Indonesia					
Jakarta Comp.(10/8/82)	724.00	(c)	723.50	740.83 8/7	631.27 15/4
Ireland					
ISEQ Overall(4/1/88)	3610.57	3610.35†	3576.95	3610.57 18/7	2725.07 2/1
Italy					
Banca Comm Ital(1972)	923.50	922.68	896.68	923.50 16/7	842.55 2/1
MIB General(7/1/97)	1358.0	1387.0	1348.0	1398.00 18/7	991.00 2/1
Japan					
Nikkei 225(16/5/49)	20249.32	20619.25	20356.74	20681.07 16/6	17303.65 10/1
Nikkei 300(1/10/82)	299.36	302.73	300.82	302.73 17/7	251.04 27/1
Topix(4/1/68)	1538.36	1553.14	1544.93	1560.28 25/6	1320.82 10/4
2nd Section(4/1/68)	1810.77	1807.12	1816.55	1848.25 30/6	1516.50 15/4
Malaysia					
KLSE Comp.(4/4/86)	1001.55	(c)	1004.09	1271.57 25/2	1001.55 18/7
Mexico					
IPC(Nov 1978)	(c)	4816.37	4787.43	4882.39 13/7	3359.46 2/1
Netherland					
CBS TtlRtnGen(End 83)	1102.7	1118.0	1133.3	1133.30 15/7	730.80 2/1
CBS All Shr(End 83)	637.2	646.6	654.8	654.80 16/7	429.00 2/1
New Zealand					
Cap. 40(1/7/86)	2475.91	2494.65	2477.49	2528.65 4/7	2207.48 1/4
Norway					
Oslo SE(Ind)(2/1/83)	2090.79	2114.58	2121.54	2121.54 16/7	1839.03 2/1
Philippines					
Manila Comp(2/1/85)	2672.96	2620.38	2587.36	3447.60 3/2	2499.38 29/5
Portugal					
BVL 30(4/1/93)	3359.54	3395.53	3383.71	3481.10 9/7	2185.57 2/1
Singapore					
SES All-S'pore(2/4/75)	490.48	487.85	493.53	573.03 17/2	479.94 29/4
South Africa					
JSE Gold(28/9/78)	992.0♥	964.3	959.5	1598.10 27/2	903.90 7/7
JSE Ind.(28/9/78)	8937.7♥	8941.2	8936.4	8941.20 17/7	7859.50 2/1
South Korea					
KoreaCompEx(4/1/80)	747.37	(c)	739.72	792.29 17/6	611.05 7/1
Spain					
Madrid SE(30/12/85)	603.29	618.32	625.52	628.35 7/7	434.54 2/1
Sweden					
AffarsvaldsGen(1/2/37)	3157.5	3186.9	3232.2	3232.20 16/7	2378.50 2/1
Switzerland					
SMI Index(1/7/88)	5737.1	5868.3	5927.5	6012.60 8/7	3922.90 7/1
SPI General(1/6/87)	3636.72	3704.95	3730.31	3768.79 8/7	2508.22 6/1
Taiwan					
Weighted Pr(30/6/66)	9677.40	9571.80	9544.56	9677.40 19/7	6844.75 6/1
Thailand					
Bangkok SET(30/4/75)	653.37	656.26	663.66	858.97 22/1	464.77 19/6
Turkey					
IMKB Nat 100(1986)	2010.0	2006.0	2009.0	2043.00 14/7	996.00 2/1
WORLD					
MS Capital Intl(1/1/70)	964.5*	976.9	978.6	978.60 16/7	794.50 14/4
CROSS-BORDER					
Eurotrack 100(26/10/90)	2701.83	2732.98	2716.04	2732.98 17/7	1893.80 2/1
FTSE E 100(26/6/90)	2248.61	2289.53	2298.65	2298.65 16/7	1592.99 2/1
HSBC JC Drgn(31/12/88)	(c)	423.55	420.38	429.48 23/7	381.63 29/4
ING Brngs Emrg(7/1/92)	188.92	191.69	187.85	196.81 9/7	159.74 3/1

US INDICES

Dow Jones	Jul 18	Jul 17	Jul 16	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7890.46	8020.77	8038.88	8038.88 (16/7)	6391.69 (11/4)	8038.88 (16/7/97)	41.22 (8/7/32)
Home Bonds	104.17	104.14	104.11	104.17 (18/7)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2836.07	2858.07	2894.19	2894.19 (16/7)	2222.07 (2/1)	2894.19 (16/7/97)	13.23 (8/7/32)
Utilities	230.66	232.60	233.45	240.85 (22/1)	209.47 (25/4)	258.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 8057.23 (8136.67) Low 7829.61 (7810.67) (Theoretical♦)
Day's high 8036.10 (8068.38) Low 7875.36 (7990.80) (Actual♦)

Standard and Poors	Jul 18	Jul 17	Jul 16	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	915.30	931.61†	936.59	936.59 (16/7)	737.01 (2/1)	936.59 (16/7/97)	4.40 (1/6/32)
Industrials♥	1081.45	1100.96	1106.62	1106.62 (16/7)	855.42 (11/4)	1106.62 (16/7/97)	3.52 (30/6/32)
Financial	102.84	104.73	105.25	105.75 (3/7)	80.75 (2/1)	105.75 (3/7/97)	7.13 (4/9/74)
NYSE Comp.	475.97	482.96	485.24	485.24 (16/7)	389.47 (11/4)	485.24 (16/7/97)	4.64 (25/4/42)
Amex Comp.	633.59	637.34	638.03	638.03 (16/7)	541.20 (28/4)	638.03 (16/7/97)	524.20 (18/7/96)
NASDAQ Cmp	1547.99	1568.85†	1580.63	1580.63 (16/7)	1201.00 (2/4)	1580.63 (16/7/97)	54.87 (3/10/74)

■ RATIOS

	Jul 11	Jul 3	Jun 27	Year ago
Dow Jones Ind. Div. Yield	1.63	1.63	1.67	2.26
	Jul 16	**Jul 9**	**Jul 2**	**Year ago**
S & P Ind. Div. yield	1.50	1.55	1.58	2.32
S & P Ind. P/E ratio	25.78	24.91	24.75	18.63

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
ColumbiaHCA	10,247,100	31⅝	-1⅞
IBM	9,158,600	104½	+4⅞
Iomega	7,534,900	24¼	+2⅝
Tel Brasil	7,438,300	129¼	-6⅞
Philip Mrrs	5,712,600	40⅛	-1⅛
AT&T	5,376,800	34½	-½
Gen Elec	5,154,200	71½	-2
Merck	5,128,000	106½	-¾
LSI Logic	4,928,000	32⅞	-2¾
Motorola	4,749,400	81½	-7½

■ TRADING ACTIVITY

● Volume (million)	Jul 18	Jul 17	Jul 16
New York SE	585.620	634.109	634.642
Amex	25.074	26.825	27.263
NASDAQ	(u)	784.612	852.099
NYSE			
Issues Traded	3,398	3,411	3,422
Rises	863	1,295	2,000
Falls	2,034	1,586	906
Unchanged	501	530	516
New Highs	171	390	535
New Lows	19	12	18

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (MATIF/MONEP) (200 x Index)							
Jul	2946.0	2858.0	-108.0	2948.0	2846.0	25,276	27,283
Aug	2955.5	2866.0	-108.5	2956.5	2865.0	150	5,162
■ DAX							
Sep	4233.5	4148.0	-75.5	4234.0	4129.0	27,141	81,181
Dec	4266.0	4178.5	-76.5	4266.0	4170.5	42	2,248
■ OMX							
Jul	2594.00	2556.00	-53.00	2600.00	2535.00	3,722	23,132
Aug	2603.00	2552.75	-64.50	2607.00	2551.25	1,338	8,205
■ SOFFEX							
Jul	5850.0	5840.4	-36.2	5862.0	5836.1	3,020	11,716
Aug	5847.0	5720.0	-159.0	5864.5	5705.0	3,195	16,382
■ S&P 500							
Sep	937.00	917.00	-20.95	937.70	916.00	66,198	182,168
Dec	948.30	926.90	-20.95	947.50	926.75	170	5,452
■ Nikkei 225							
Sep	20400.0	20280.0	-270.0	20580.0	20270.0	16,194	169,244

Open interest figures for previous day.

– Sat July 12: Taiwan Weighted Price 9601.38; Korea Comp Ex 765.27. Base values of all indices are 100 except Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall; Toronto Comp./Met & Mins, DAX – all 1,000; SMI – 1500; JSE Gold – 255.7, JSE 20 Ind – 264.3, IMKB Nat 100 – 1; NYSE All Common – 50, Stand & Poor's – 10 and Amex Comp – 550. §§ Montreal. ♦ Toronto (c) Closed (u) Unavailable. ‡ IBIS-DAX after-hours index. Jul 18 – 4131.94 -71.97. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation

NORTH AMERICA

CANADA

TORONTO (Jul 18 / Can $) 4 pm close

MONTREAL (Jul 18 / Can $) 4 pm close

Prices supplied by Extel, part of FT Information.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, July 18, 1997

	Stocks Traded	Closing Prices	Change on day
Sakura Bank	6.7m	857	-13
Daiwa Bank	5.8m	615	+12
LTCB	5.8m	547	-28
Toko	5.3m	915	+39
Kumagai Gumi	5.3m	150	+9
Nikko Secs	5.2m	726	+1
Nippon Steel Cp	4.6m	335	+4
Mitsubishi Hvy	4.5m	833	-2
Fujitsu	4.2m	1690	-20
Hitachi	3.7m	1310	-30

NEW YORK STOCK EXCHANGE PRICES

4 pm close July 18

- A -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
37	24¼	AAR	0.48	1.3	29	716	u37⅞	36½	37⅞	+1 3/16
47¾	33⅛	AMP	1.04	2.2	37	6187	47 11/16	46 13/16	47	-½
103¼	78¼	AMR			7	5303	99 7/16	96 13/16	99 1/16	-1⅛
37⅞	29½	ASA	1.20	3.9	20	550	31⅛	30 7/16	31	+ 7/16
68 13/16	48¾	AbbotL x	1.08	1.7	24	25545	63 3/16	61¾	62 1/16	-⅞
18⅝	14⅛	AbitiBi Pr	0.40	2.3	9	z0	17¾	17¾	17¾	
22⅛	17⅜	ABM Ind x	0.40	1.8	20	145	22 1/16	21 13/16	22	+ 1/16
23 13/16	17¾	Acptncein			11	163	23 3/16	22 13/16	23	-⅛
78⅝	56⅛	ACE Ltd x	0.88	1.2	12	702	77¾	76 5/16	76 9/16	-1⅝
10¾	10	ACM Gvt In x	0.90	8.5	11	286	10 11/16	10 7/16	10⅝	
7⅞	7	ACM GnOpp x	0.63	8.2		224	7¾	7 11/16	7 11/16	- 1/16
10 3/16	9¼	ACM Man x	0.90	8.7		264	u10 7/16	10¼	10 5/16	+ 1/16
10⅝	6⅛	Acme Elect				90	6 7/16	6 5/16	6 5/16	- 1/16
20	13	Acme Mtls				60	16½	15⅝	15⅝	-¾
22 11/16	14	ACNielsen			38	1049	21¼	20 13/16	21 3/16	+⅛
40⅛	27¼	Acordia	0.60	2.0	19	z0	39⅞	39⅞	39⅞	
29¾	19¼	Acuson				1881	22½	21¾	22⅛	-⅝
24 1/16	19⅜	Adams Expr	0.55	2.3	1	238	23⅞	23¾	23 13/16	
48½	24⅞	AdvMic				13061	39¼	37¼	37 7/16	-1 13/16
27½	10⅞	Advest Grp	0.12	0.5	16	144	22 13/16	22⅛	22 7/16	-⅛
17⅜	11⅜	Advo Inc			20	76	u17 7/16	16¾	16 13/16	- 3/16
78⅞	61⅛	Aegon	1.31	1.7	21	1265	77	75½	75⅞	-⅞
5 9/16	3⅛	Aerflx				307	4 13/16	4⅝	4 13/16	+⅛
51	33	Aero-V	0.80	1.6	15	979	u51 3/16	50 7/16	51 3/16	+¾
82¾	48	AES Corp				z0	79 13/16	79 13/16	79 13/16	-2 13/16
112⅝	73	Aetna	0.80	0.8	58	4704	107⅞	104 5/16	104 5/16	-2 7/16
53 1/16	37½	Aflac	0.46	0.9	18	1450	52⅞	52 3/16	52½	- 3/16
35 13/16	19¼	AGCO	0.04	0.1	14	z0	34 3/16	34 3/16	34 3/16	- 1/16

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- B -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
8⅜	7½	BEA Inc	0.72	8.7		722	8¼	8⅛	8¼	+ 1/16
10 1/16	9	BeaStrat	0.81	8.3		23	9 13/16	9 13/16	9 13/16	
37 3/16	25	BearSt	0.60	1.7	8	2026	37	35 9/16	35¾	-1⅛
37⅝	27½	Bearings	0.64	1.8	18	137	37⅜	35¾	36 7/16	-¾
52 9/16	37	Beckman In	0.60	1.2	18	504	50 9/16	49 13/16	50	- 9/16
55 9/16	42¾	BectnD	0.52	1.0	22	2707	54⅝	53	53 3/16	-1 7/16
21¼	16⅝	BdnlProp	1.08	5.6	15	38	19 5/16	19	19⅛	-¼
78¼	58¾	BellAtl x	2.96	4.2	17	15400	70½	68¾	70⅛	+1⅛
19 13/16	13 1/16	Bell In			12	57	17⅛	16⅞	16 13/16	+ 1/16
48 11/16	38⅛	BellSth x	1.44	3.2	17	20748	45⅝	44 13/16	45 1/16	- 11/16
45 1/16	33¼	Belo A	0.44	1.0	20	483	45 5/16	44⅛	44 5/16	-1
45⅞	33⅝	Bemis	0.80	1.8	23	440	44½	43 7/16	43 13/16	- 11/16
68¾	63¾	Benef 4.3P	4.30	6.3		z0	u68¾	68¾	68¾	
75¾	59½	Benef	2.08	3.0	14	1433	71⅛	69 11/16	69 11/16	-1⅞
33⅝	22⅞	Benetton A x	0.40	1.2	20	11	32 5/16	32⅛	32⅛	- 1/16
½	3/16	Benguet B			15	41	5/16	d 3/16	5/16	- 1/32
31	22	BergBr	0.48	1.6	19	533	30	29 5/16	29¾	+ 5/16
48600	33000	BerkHA				2100	47000	46200	46400	-600
1624	1080	BerkHB				52	1580	1540	1547	-30
19	13⅞	Berry Petr	0.40	2.3	20	190	17⅛	17	17⅛	+⅛
15⅞	7⅞	Best Buy				735	13⅞	13 11/16	13 13/16	- 1/16
28¼	25¾	Beth St 2.	2.50	9.0		30	28	27⅜	27⅝	
53⅞	49⅞	Bethlhm Pf	5.00	9.3		4	53¾	53½	53¾	+⅛
10¾	7⅝	BethSt				7869	10⅝	10 3/16	10¼	-⅜
67⅜	54⅞	Betzdrn	1.50	2.5	29	953	61⅞	60 13/16	60⅞	
17 1/16	12¼	BevEnt			27	4408	16	15 13/16	15⅞	-¼
40⅞	25½	BG ADR				115	u41⅞	41⅛	41¾	+1
22 13/16	17⅛	Bindley W	0.08	0.4	13	261	22⅜	21⅝	21 13/16	- 11/16
22	14¼	Birmingm S	0.40	2.3	30	1309	17⅜	16 13/16	17 1/16	-⅜
41⅝	29⅝	BlDeck	0.48	1.2	17	2561	40 3/16	39¾	40⅛	- 1/16
29⅝	26¼	Black H Pt.	1.42	4.9	13	162	29 3/16	29 1/16	29 1/16	- 1/16
9	8⅜	BlckrckAdv x	0.63	7.0		104	8 15/16	8⅞	8 15/16	
6 13/16	6⅛	Blckrcklnc x	0.56	8.4		683	6¾	6 11/16	6 11/16	- 1/16
9 5/16	8⅝	BlckrckTgt x	0.57	6.3		863	u9 1/16	9 1/16	9⅛	

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4 pm close July 18

NYSE PRICES

Continued from previous page

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ds-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

AMEX PRICES

4 pm close July 18

NASDAQ NATIONAL MARKET

4 pm close July 18

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3	-0.125	30000	8.25	3	Lernout & Hauspie	US$29.5	-0.125	11681	30.125	25
Artwork Systems	US$9.375		18480	11.125	9.375	Mercer Int'l	US$9.625	+0.125	0	11.75	8.125
Chemunex	FFr15		0	18	14	NTL	US$22.5	-0.375	0	25.125	22.625
Dr Solomon's ADS	US$28	-0.375	1850	28.375	16.875	PixTech	US$3.875		0	6.125	3.875
Esprit Telecom ADS	US$7.75		0	12.25	5.375	Schoeller-Bleckmann	Sch1073	+48	32090	1078	900
Innogenetics	US$10.25	-0.25	64612	12.75	10.375	Topcall Int'l	Sch3305	+10	8284	3318	3065

Prices for 18/7/97. Please note that mid prices are now used to calculate highs and lows.
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FT GUIDE TO THE WEEK

MONDAY 21

Taiwan-China talks

Taiwan may be forced to lift longstanding curbs on China-backed investments on the island as a condition for membership of the World Trade Organisation. Trade officials have hinted Hong Kong may demand that Taiwan drop all barriers to Chinese investment in a sixth round of bilateral talks, which start today in Tokyo, on Taiwan's entry into the WTO. The previous round was held in December 1996. *Hong Kong* is one of seven WTO members with whom Taiwan has yet to conclude bilateral WTO-entry negotiations. Others include the US, with whom Taiwan recently completed a fourth round of talks. The combined Chinese shareholdings of companies investing in Taiwan may not exceed 20 per cent.

Santas on parade

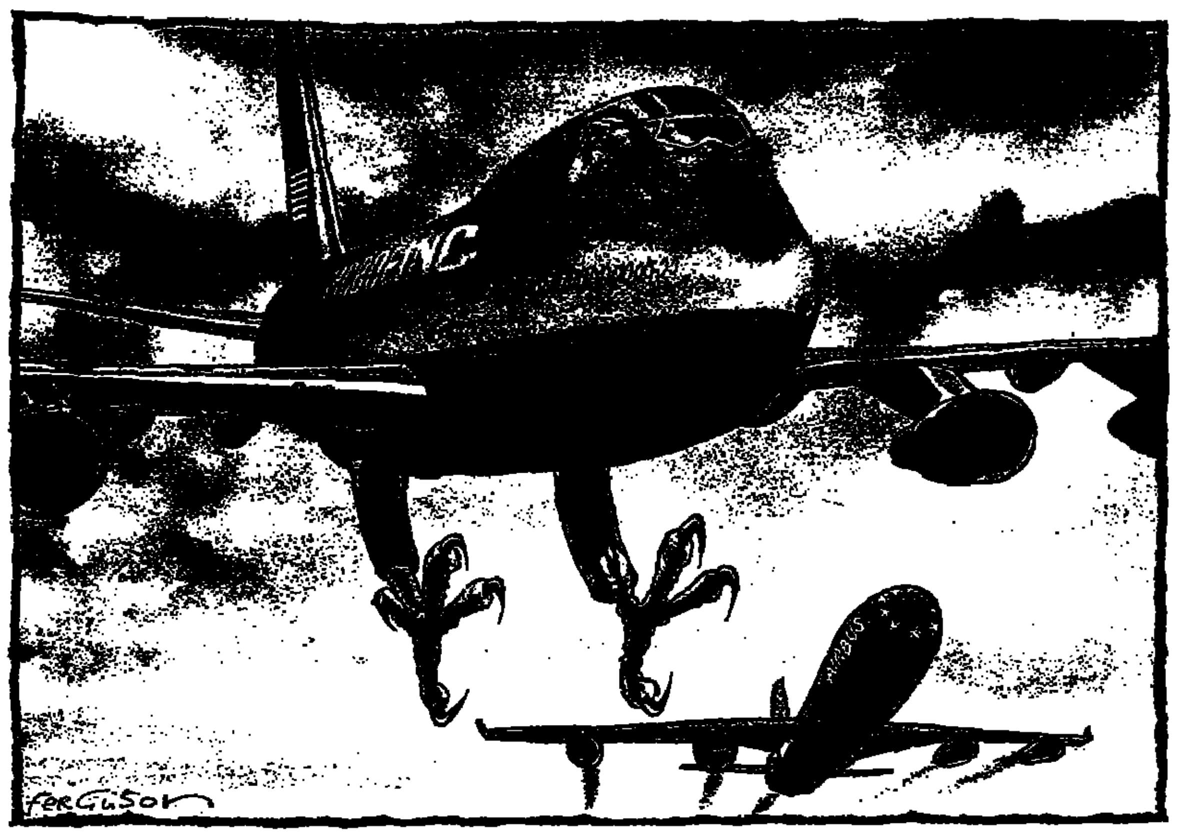
Father Christmases from more than a dozen countries descend on Copenhagen for the 34th world Father Christmas congress (to July 24). The annual event, which yields incongruous sights such as Santas parading on the beach or eating ice cream in the sunshine, attracted more than 150 Father Christmases from 18 countries last year. Behind the festive spirit, organisers insist, there is a serious side. Recurring topics of discussion include the "true" location of Father Christmas's home and how to market Father Christmas in cyberspace.

S Korean candidate

South Korea's governing centre-right New Korea party will today select its candidate to stand in the December election to succeed President Kim Young-sam. The nominee is favoured to win the election against two opposition candidates, Mr Kim Dae-jung, of the centre-left National Congress for New Politics, and Mr Kim Jong-pil, of the conservative United Liberal Democrats. Unlike previous conventions when the nominee was clearly known in advance as a result of backroom deals, the outcome of the congress remains uncertain. This is due to new democratic rules that give delegates more power to select the candidate. Among the leading contenders are Mr Lee Hoi-chang, a former judge; Mr Rhee In-je, the young governor of Kyonggi province; and Mr Lee Soo-sung, former law professor and prime minister.

UK lottery

The UK government is expected to publish a white paper on the future of the National Lottery, which will pave the way for lottery proceeds to be used to fund health and education projects. The government is expected to concede that it may not be possible to stick to to the Labour party's election manifesto pledge to run the lottery on a "not for profit" basis after 2001, when the franchise of Camelot, the company running the lottery, expires.



The European Commission will decide on the Boeing-McDonnell Douglas merger on Wednesday

FT Survey

Italy

Public holidays

Belgium, Japan.

TUESDAY 22

EU blueprint debate

EU foreign ministers are meeting in Brussels to hold their first debate on the European Commission's blueprint on enlargement, called Agenda 2000. There are divisions across the Union over the Commission's proposed reform of the EU budget and the Common Agricultural Policy. Some countries are unhappy about the decision to draw up a short-list of five post-communist countries deemed ready to start membership negotiations next year, in addition to Cyprus. They would like to open negotiations with all 10 applicant countries. A decision is due under the Luxembourg presidency in December.

Herzog travels to US

Germany's President Roman Herzog makes his first state visit to the US with the aim of further strengthening relations between the two countries. President Herzog, a proponent of structural reform in Germany, makes a speech on US-German issues on Wednesday, and holds discussions in Congress and with President Bill Clinton on Thursday.

WTO considers Russia

World Trade Organisation members meet in Geneva to continue talks on Russia's application to join the 131-member body. Moscow is aiming for WTO entry next year and Anatoly Chubais, Russia's first deputy premier and a leading economic reformer, has taken charge of the negotiations. But western trade officials say Russia is still far from satisfying the obligations of WTO membership. One concern is copyright piracy, which is estimated to cost international software and entertainment companies $1bn a year in lost sales.

WEDNESDAY 23

Boeing merger decision

The European Commission is due to make a final decision on the controversial merger between US aircraft manufacturers Boeing and McDonnell Douglas. Competition experts from the European Union's 15 member states last week recommended that the merger should be banned. The Commission is expected to follow that advice. Boeing said there was still time to reach an agreement but tension was increased last week when presidents Bill Clinton of the US and Jacques Chirac of France entered the fray. A decision to ban the deal would spark fierce objections from the US. Washington rejects the Commission's charge that the merger will strengthen Boeing's dominant position in the civilian aircraft market, making it difficult for Airbus Industrie, the European consortium, to compete. Boeing's shareholders are due to vote on the merger on July 25.

Peace in our time?

Noise pollution is on the increase. Today local authorities in England and Wales will be raising awareness of noise issues by encouraging people to take a more responsible attitude to the noise they make and the effect it has on others. National Noise Awareness Day is being co-ordinated by the National Society for Clean Air and Environmental Protection. The society says complaints about noise in England and Wales increased by 62 per cent between 1985 and 1995. Councils will be holding exhibitions and other events.

All-star baseball clash

Japan's annual all-star baseball contest between the Pacific League and Central League takes place in the Osaka Dome tonight. For the first time in 22 years, not a single player from Japan's most popular team, the Yomiuri Giants, has been selected for the Central League team, reflecting their poor performance this season. The selectors are, however, not blaming their run of defeats on the management – the Giants' manager will be in charge of the Central dugout.

Waving the WEU flag

Mr Jose Cutileiro, head of the Western European Union (WEU), the European Union's security arm, arrives for a two-day visit in Warsaw to wave the WEU flag. The aim is to make sure that the Poles, who are now intent on membership talks with Nato, do not forget that the European Union, with whom Poland starts membership talks early next year, also has a fledgling security organisation. France, for one, is intent on developing the WEU.

UN in Georgia peace bid

Three days of UN-sponsored talks designed to reinvigorate the stalled peace process between Georgia and the breakaway region of Abkhazia begin in Geneva. Joining the two sides will be representatives of Russia as "facilitator", France, Germany, Britain and the US. The last round of talks in this format was in early 1995. The talks made little progress towards a political settlement to the conflict which was provoked by Abkhaz rebels in 1993 and has resulted in 250,000 people fleeing the region. Russia maintains a 3,000-strong peacekeeping force on the border between the two sides.

Carter visits China

Former US president Mr Jimmy Carter begins an eight-day visit to China. He is expected to discuss with Chinese leaders recent developments regarding China's domestic and foreign policies. His entourage includes his wife Rosalynn and former US senator Mr Sam Nunn. It will be Mr Carter's fourth visit to China since the establishment of full diplomatic relations between China and the US.

Soccer

European Cup qualifying round, first leg (15 matches), and Uefa Cup (20 matches) preliminary round, first leg.

FT Survey

Kazakhstan

THURSDAY 24

New Asean members

The Association of South East Asian Nations (Asean), Asia's foremost political and economic grouping, is to hold its 30th anniversary meeting in Kuala Lumpur (also 25 July). The group is to address the induction of Cambodia, Laos and Burma into its ranks, thus realising the aim of the association's founders to create an "Asean 10". But, while Burma and Laos remain scheduled to be admitted, Cambodia is not due to be allowed to join at this meeting because of recent violence in the country. Asean objected to the way in which Mr Hun Sen, Cambodia's prime minister, ousted Mr Norodom Ranariddh, his co-premier, this month. The question of how Asean should view Cambodia's new leadership is likely to overshadow the anniversary celebrations.

Nomura chief questioned

Mr Junichi Ujie, the new president of Nomura Securities, is due to be questioned by Japan's Ministry of Finance on the scandal surrounding the company's links with corporate racketeers. The ministry is considering what penalties it should impose on Nomura next month. Unusually, the hearing will be open to the press – at Nomura's request. Mr Ujie was appointed to improve the company's image, which includes creating a climate more conducive to outside scrutiny.

Cricket

England take on Australia in the fourth test (to July 28) at Headingley.

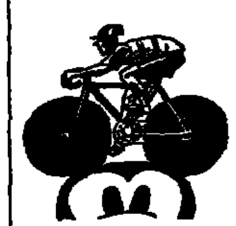
FRIDAY 25

Russian telecoms sale

The winners in the auction of a 25 per cent stake in Russia's Svyazinvest, the national telecommunications giant, are due to be announced today. The Kremlin hopes the $1.18bn sale will provide cash to pay off disgruntled soldiers and workers. Foreign bidders are not barred from the privatisation but it is expected that a Russian-western alliance stands the best chance. Western analysts said foreign telecoms operators, including Stet of Italy, US West and Deutsche Telekom, might be involved.

SATURDAY 26

Tour de force



Tour de France reaches stage 20 and all eyes will be on the time-trial at Disneyland, Paris. The race ends on Sunday in the French capital. The final time trial last year was won by Jan Ullrich of Germany, a member of the Telekom team. Ullrich is performing well this year and last week took the lead from Cedric Vasseur of France. The German was being tipped to maintain his lead for the rest of the race. Richard Virenque of France and Marco Pantani of Italy are his principal rivals.

SUNDAY 27

Asian forum

The Asean Regional Forum (ARF), which embraces US, Canada, EU, Japan, China, South Korea, Australia, New Zealand, India and Pakistan, is due to meet. Ms Madeleine Albright, the US secretary of state, is expected to attend. This would be her first diplomatic engagement in South-east Asia since taking the job.

Motor racing

German Grand Prix, Hockenheim.

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ECONOMIC DIARY

Other economic news

Monday: The German consumer price index for July, due out some time this week, may show some upward pressure because of seasonal factors and higher healthcare costs. The monthly rate could be 0.4 per cent, or 1.7 per cent annually.

Tuesday: Italy's consumer price index for July is forecast to have remained unchanged, with an annual rate of 1.6 per cent, lower than Germany's.

Wednesday: UK retail sales figures for June are seen as providing an important indicator of the Bank of England's next interest rate move. The markets are looking for an annual growth rate of 4.4 per cent after 5.3 per cent in May.

Thursday: The Bundesbank council meeting is likely to leave interest rates unchanged, in spite of recent comments from senior Bundesbank members, suggesting that Germany's economic growth is more robust than widely discounted.

Friday: UK second quarter GDP is expected to show strong annual growth of about 3.5 per cent after 3.1 per cent in the first quarter.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Sweden	May current account	SKr1.4bn	SKr5.1bn
Jul 21	Canada	May retail sales†*	0.7%	1.1%
Tue	Japan	May coincident index	75%	10%
Jul 22	Japan	May leading differential index	33.3%	5.8%
	France	May industrial production†*	-0.7%	3.0%
	France	May industrial production ex-energy*	-0.1%	1.1%
	US	BOT-Mitsubishi 19 July		0.9%
	Italy	July consumer price index 11 cities**	1.7%	1.4%
	US	June treasury budget		-$48.5bn
	Nthlands	1996 final gross domestic product	2.1%	2.1%
Wed	Austria	Q2 consumer-price index, underlying**	1.7%	2.1%
Jul 23	UK	June retail sales*	0.3%	1.1%
	UK	June retail sales**	4.4%	5.3%
	Canada	June department store sales**	10.1%	10.3%
	Canada	June leading indicators†*	0.7%	0.7%
Thur	UK	May global visible trade	-£860m	-£951m
Jul 24	UK	June ex-EU visible trade	-£563m	-£583m
	US	initial claims July 19		349K
	US	state benefits July 12		2378K
	Canada	May internat. securities transactions	C$2.3bn	C$4.2bn
	US	M2 week ended July 14		$9.1bn
	Nthlands	Q1 gross domestic product final***	-0.6%	0.5%
	Nthlands	Q1 gross domestic product final**	2.1%	3.4%
Fri	Japan	July consumer price index (Tokyo)**	1.9%	1.9%
Jul 25	Japan	July cons price indx ex-perishables**	1.8%	1.7%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	Japan	June consumer price index (nation)**	2.2%	1.9%
	Japan	June cons price indx ex-perishables**	2.0%	2.1%
	France	May trade balance†	12bn	16bn
	France	June consumer price index final*	0.0%	-0.05%
	France	June consumer price index final**	1.0%	0.95%
	Sweden	June producer price index**	1.9%	1.4%
	UK	Q2 prelim gross domestic product***	1.0%	0.9%
	UK	Q2 prelim. gross domestic product**	3.5%	3.1%
	US	June durable orders		0.7%R
	US	June durable shipments		1.4%R
	Canada	May fix-weight employee earnings**	1.9%	1.7%
	US	June existing home sales		4.24m
	Sweden	June trade balance	SKr13.5bn	SKr11.1bn
Sun	China	June M2		19.1%
Jul 27	Korea	June current account		$1.04bn
	Japan	June Bank of Japan corp servs prices**		1.4%
	Japan	June Bank of Japan corp servs prices*		0.1%
During the week...				
	Germany	June producer price index*	0.4%	0.2%
	Germany	June producer price index**	1.4%	1.1%
	Germany	June import prices**	3.6%	2.8%
	Germany	May trade balance	DM10.5bn	DM10.4bn
	Germany	May current account	DM1.0bn	DM2.8bn
	Japan	July trade balance (1st 10 days, not†)		[illegible]

*mth on mth, **yr on yr, ***qtr on qtr, R revised, †seasonally adjusted. Statistics: Standard&Poor's MMS.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 20.07.97 / Final Prices for Trading on 22.06.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	12.27	11.35	11.37	0.95
0100	11.11	10.03	10.03	0.00
0130	9.90	9.50	9.52	0.95
0200	9.20	10.03	10.05	0.95
0230	9.20	10.03	10.05	0.95
0300	9.20	10.03	10.05	0.95
0330	9.20	10.03	10.05	0.95
0400	9.20	10.03	10.05	0.95
0430	9.20	10.03	10.05	0.95
0500	8.02	10.03	10.05	0.95
0530	9.20	11.38	11.40	0.95
0600	9.20	11.38	11.40	0.95
0630	9.20	11.38	11.40	0.95
0700	9.20	11.38	11.40	0.95
0730	9.20	10.01	10.01	0.00
0800	9.90	11.38	11.40	0.95
0830	9.90	11.38	11.40	0.95
0900	9.90	11.94	11.96	0.95
0930	12.49	14.74	14.76	0.95
1000	12.45	15.29	15.31	0.95
1030	13.73	17.55	17.57	0.95
1100	15.69	17.18	17.20	0.95
1130	16.30	17.55	17.57	0.95
1200	18.28	22.19	22.21	0.95
1230	24.85	22.19	22.21	0.95
1300	24.85	22.19	22.21	0.95
1330	16.76	22.19	22.21	0.95
1400	15.22	17.55	17.57	0.95
1430	15.22	15.03	15.05	0.95
1500	10.10	15.03	15.05	0.95
1530	10.10	14.18	14.20	0.95
1600	10.11	14.42	14.44	0.95
1630	15.22	14.42	14.44	0.95
1700	15.22	14.18	14.20	0.95
1730	15.22	15.03	15.05	0.95
1800	15.22	15.03	15.05	0.95
1830	15.22	15.03	15.05	0.95
1900	15.22	15.03	15.05	0.95
1930	15.22	14.42	14.44	0.95
2000	15.22	14.42	14.44	0.95
2030	10.12	15.03	15.05	0.95
2100	10.11	15.03	15.05	0.95
2130	15.22	14.42	14.44	0.95
2200	18.71	18.87	18.89	0.95
2230	23.00	18.87	18.89	0.95
2300	23.00	18.87	18.89	0.95
2330	13.73	17.95	17.97	0.95
2400	12.45	14.04	14.06	0.95

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading [illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 21.07.97 / Final Prices for Trading on 23.06.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	9.90	12.10	12.22	0.87
0100	9.90	12.10	12.22	0.87
0130	9.90	12.10	12.22	0.87
0200	9.90	12.10	12.22	0.87
0230	9.90	12.10	12.22	0.87
0300	9.90	12.10	12.22	0.87
0330	9.90	12.10	12.22	0.87
0400	9.90	12.10	12.22	0.87
0430	9.90	12.10	12.22	0.87
0500	10.11	10.02	10.02	0.00
0530	7.00	9.01	9.01	0.00
0600	7.00	7.00	7.00	0.00
0630	7.00	10.01	10.01	0.00
0700	10.00	10.03	10.03	0.00
0730	15.97	12.64	12.77	0.87
0800	12.50	18.51	18.64	0.87
0830	16.30	14.72	14.85	0.87
0900	16.30	19.70	19.83	0.87
0930	18.37	19.74	19.88	0.87
1000	17.99	21.11	21.26	0.87
1030	18.45	23.96	24.09	0.87
1100	27.28	23.93	24.09	0.87
1130	27.29	23.98	24.13	0.87
1200	30.85	41.50	41.69	0.87
1230	30.84	41.50	41.69	0.87
1300	27.27	41.45	41.62	0.87
1330	18.40	23.87	24.02	0.87
1400	18.39	19.71	19.84	0.87
1430	18.35	19.69	19.83	0.87
1500	18.39	19.69	19.82	0.87
1530	18.38	19.25	19.38	0.87
1600	18.38	19.26	19.39	0.87
1630	18.38	28.12	28.26	0.87
1700	18.38	30.29	30.43	0.87
1730	17.57	30.27	30.41	0.87
1800	17.42	19.25	19.38	0.87
1830	16.39	18.74	18.86	0.87
1900	17.42	22.37	22.49	0.87
1930	17.42	22.37	22.49	0.87
2000	16.82	18.51	18.63	0.87
2030	12.80	14.71	14.83	0.87
2100	13.00	14.71	14.83	0.87
2130	15.82	14.71	14.83	0.87
2200	23.00	22.37	22.49	0.87
2230	23.00	22.37	22.49	0.87
2300	23.00	22.37	22.49	0.87
2330	15.82	14.71	14.83	0.87
2400	12.83	12.29	12.41	0.87

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading [illegible]

MONDAY PRIZE CROSSWORD

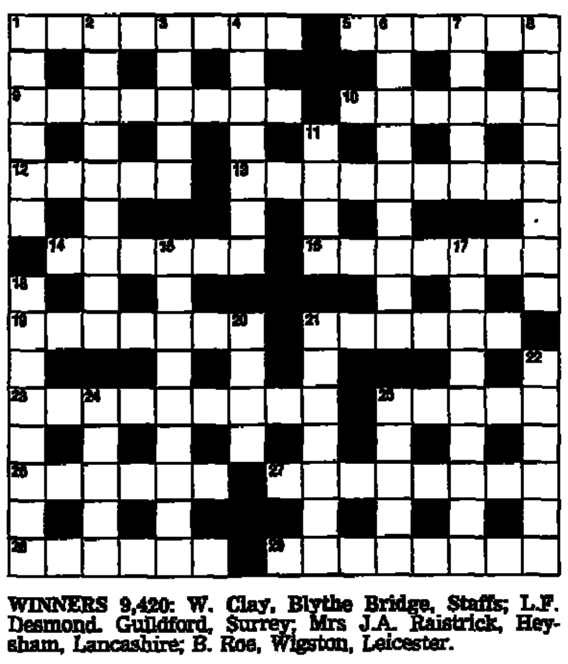
No.9,432 Set by DINMUTZ

ACROSS

1 Betrayal of love in pure sex romp (8)
5 Pip given endless credit producing acid (6)
9 Stone integral sometimes to Newton? (8)
10 Angora's second show (6)
12 Gets rid of dry white wines (6)
13 Key choice, possibly, in sticky game? (3-6)
14 Run through, knocking over motorway barrier (6)
16 Reading in the cup? One of many predicting that! (3-4)
19 In Scotland, Lerwick stages German dances (7)
21 Carbolic acid used for faulty phone-line (6)
23 Makes perfect by saw – it scrapes away (9)
25 Puzzle how to get a man out (5)
26 Strong woman wanted as runner between banks (6)
27 Hectic time with Flora, perhaps (8)
28 Broadcast sensation (6)
29 Damned English fleet in final struggle (8)

DOWN

1 Tax cut (6)
2 Fuzz found in end of Brie – complain bitterly! (9)
3 Virile chaps making an impression on the field? (5)
4 Grind – run-of-the-mill practice (7)
6 Sweet cool tea, perhaps, given to church leaders (9)
7 Permanent way to pursue (5)
8 Lift cricket-side to win (5,3)
11 Preference for cup of tea (4)
15 Tar over Luton is scheduled for washing (9)
17 Development of rebellion without a leader (9)
18 Slopes in dockyards, using these escape methods (8)
20 Unguarded skin trouble? (4)
21 Fascination of Spain, so exciting (7)
22 Plea heard at Lord's or in the Lords? (6)
24 Advantage of a disguise, we hear (5)
25 Grass edges cut (5)



WINNERS 9,420: W. Clay, Blythe Bridge, Staffs; L.F. Desmond, Guildford, Surrey; Mrs J.A. Raistrick, Heysham, Lancashire; B. Roe, Wigston, Leicester.

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday July 31, marked Monday Crossword 9,432 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday August 4. Please allow 28 days for delivery of prizes.

Name..

Address..

....

Solution 9,420

B	E	D	S	P	R	E	A	D		S	O	L	I	D
R		E		E		V		E		O		I		E
A	C	T	O	R		E	N	I	G	M	A	T	I	C
V		O		I		R		G		E		H		I
O	M	N	I	P	O	T	E	N	T		T	E	A	M
		A		H		O		E		O				A
B	I	T	T	E	R	N		D	I	S	T	A	N	T
L		O		R						T		G		E
A	I	R	M	A	I	L		S	L	E	D	G	E	D
C				L		O		T		N		R		
K	I	T	E		S	W	E	E	P	S	T	A	K	E
J		I		B		B		T		I		V		V
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C		I		A		O		O		L		T		N
K	N	A	V	E		W	A	N	D	E	R	E	R	S

هكذا من الأصل

ITALY

Premier Romano Prodi is staking his reputation on Italy meeting the criteria for joining the European single currency, reports **Robert Graham**

Perseverance on monetary union is close to reward

Premier Romano Prodi, above, exudes confidence over Italy's economic path. Pictured, top right, is the strongly pro-European treasury minister, Carlo Ciampi. However, Italy's principal EU commissioner, Mario Monti, lower right, has warned the government not to be over-confident

At last, Italy is close to a virtuous economic path. With perseverance and an element of luck, it will be increasingly hard to find an excuse to exclude Italy from the first wave of countries joining the Euro single currency.

Inflation has fallen below 2 per cent to a 30-year low and is well within the European norm. The public accounts, after five years of tough corrective budgetary measures, are being brought under control: the deficit at the end of the year will be on or not far off 3 per cent of GDP – the target laid down in the Maastricht criteria for taking part in European Monetary Union (Emu).

This year, Italy is heading for a huge 6 per cent primary surplus (the balance between treasury receipts and spending excluding debt service payments). Meanwhile, the spread between Italian and German 10 year-bonds – a key benchmark of market confidence in Italy – has narrowed dramatically to less than 100 basis points.

The downside of this effort can be seen in the depressed state of the economy. Italy is well behind the recovery cycle of France and Germany and at best will achieve 1.2 per cent growth this year. The average level of unemployment is over 12 per cent which conceals a worrying gap between the near full employment in the export-orientated North and the plight of the jobless in the stagnant pubic sector-dependent South.

Despite these negative factors, premier Romano Prodi exudes the confidence of a student who has surprised his teacher with the quality of his exam results.

When he took office in May 1996, with no political base and a background as an economics professor and state company manager, Italy was regarded as a firm "out" in the betting on the single currency. However, he staked his reputation on Italy becoming an "in", making it a matter of pride for a nation which continues to embrace the EU ideal with remarkable enthusiasm.

With scarcely a murmur, Italians paid this year's once-off 'Euro tax' to raise extra revenue to meet the Maastricht budget deficit target. Ministers admit that without the external discipline of the convergence criteria, it would have been difficult, if not impossible, to introduce such a tough 1997 budget.

As it was, the government revised its strategy last September. Instead of bringing the budget deficit into line a year late by the end of 1998 as first planned, Mr Prodi decided to comply with the proper timetable – prompted by the strongly pro-European treasury minister Carlo Azeglio Ciampi.

If this gamble pays off, it will be due, in part, to the unexpected shifts within the EU in the wake of the Socialist victory in the June French elections – and as a result of the difficulties faced by Germany in complying with the convergence criteria.

The advent of the Jospin administration in Paris has brought an important ally, insistent on Rome being part of the core 'Euro' group and determined to overcome German reservations about the stability of the new currency with Italy as "in".

The financial markets are currently endorsing a 'soft' Euro that includes Italy going ahead on schedule. But the evolution of the crucial Franco-German relationship over Emu is unlikely to be clarified at least until late autumn.

The prospect of a delay in monetary union has to be taken seriously. If this happens, Italy could be one of the main casualties with the lira under renewed pressure. Not only would this undermine the government's confidence, but the delay could well expose the fragility of some of the measures being used to reduce the budget deficit.

Such a prospect has led some, including Mr Mario Monti, Italy's principal EU commissioner, to warn the government not to be over-confident. It also helps explain the caution of Mr Antonio Fazio, the governor of the Bank of Italy who has resisted pressure from the government and business to relax monetary policy by lowering interest rates further and faster. Given Italy's mountain of debt – 122 per cent of GDP, double the level set by Maastricht – Mr Fazio's prudence since assuming the governorship in 1992 has been fully vindicated. Furthermore, his rigorous handling of monetary policy has played an important part in bringing down inflation.

The most immediate challenge for Mr Prodi is to forge a consensus with the unions over a reduction of pensions expenditure only two years after they agreed to reforms under the Dini government.

The cost of the generous state-run pensions system is increasing at an unsustainable 3.5 per cent a year, twice the growth rate of the economy - *see report, page three.* The pensions system is an area with considerable scope for structural spending cuts and the quality of the deal achieved with the unions could prove decisive in Italy's candidature for Emu.

The government *has* already given way to union pressure on the size of spending cuts in the 1998 budget – and Mr Prodi is unlikely to seek a confrontation, especially as the left has been bolstered by the French election result.

While economic management has absorbed the government's attention, the political parties have concentrated on trying to agree proposals for the first reform of the 1948 constitution, with special emphasis on strengthening the powers of the executive. The proposals endorsed at the end of June by a joint parliamentary commission are a seemingly unworkable hybrid, introducing a directly elected president with enhanced power while reinforcing the position of the prime minister in an ill-defined 'co-habitation'.

The confused outcome of the commission was the inevitable product of crude horse-trading. In essence, Mr Silvio Berlusconi, the leader of the right-wing opposition and former premier, was allowed to maintain his existing three television channels (a constitutional court had ruled he should divest at least one) in return for backing the reforms. The deal was a reminder that the conflict of interest between Mr Berlusconi's role as a politician and his business empire is not only unresolved but is now exploited by the centre-left coalition to keep him on rein.

Parliament will probably take until the end of 1998 to approve constitutional change and the proposals could undergo substantial alteration. Presidential elections, due in 1999, will be the first test of the constitutional shake-up; and they will probably be accompanied by a general election.

Both government and opposition are operating on such a scenario and have little interest in seeking to unseat the Prodi administration. For the same government to remain in office throughout a legislature would be unprecedented in post-War Italy – and it would allow Mr Prodi and his team to focus on a range of medium and long-term issues, instead of the traditional day-to-day survival.

IN THIS SURVEY

THE ECONOMY • by Robert Graham

The turnaround is under way at last

This year's growth target of a modest 1.2 per cent will be hard to achieve. On a purely regional basis, the improvement is still patchy

The Italian economy is witnessing a hesitant recovery, well behind the cycle of the other leading European economies.

Domestic demand has picked up, largely thanks to the spectacular success of a government incentive scheme to trade-in used cars. It has also been helped a stronger performance from exports due to greater growth in France and Germany, the main export markets. Confindustria, the industrialists confederation, remains cautious about the extent of the recovery since part of the pick-up in industrial production could be no more than replacing run-down stocks.

Against this background, the official growth target for this year of a modest 1.2 per cent will be hard to achieve and the 1998 projection of2 per cent could yet be optimistic. This also means that even with implementation of job measures agreed between the government, unions and employers, the high unemployment rate of 12.2 per cent will decline little. However, union leaders are convinced the real level of unemployment is lower because of the large numbers employed in the underground economy.

The economic turnaround began to show after the first quarter. Until then, there had been two consecutive quarters of negative growth, technically placing the economy in recession. However, in April the full impact of the car incentive scheme, introduced in January, was felt.

By the end of June, new car registrations were up 32 per cent on the same period in 1996 (a remarkable 50 per cent up June-on-June). The main beneficiary was Fiat selling 456,000 cars in the first six months against 336,000 during the same period in 1996.

Since April, all the main indicators from electricity consumption through to machine tool orders have further improved. (Domestic machine tool orders were 30 per cent up in the second quarter). Meanwhile, stronger domestic demand has begun to raise import levels, increasing 30 per cent in April.

On a purely regional basis, the picture is still patchy with the recovery strongest in the north and least evident in the south which depends more on public spending and has fewer export-orientated industries.

The temporary nature of the car purchase incentive scheme has raised questions about the sustainability of demand. Though scheduled to end by October 1, the government is now under pressure either to extend the period or to ensure a 'soft landing' with a gradual phasing out. At the same time, others sectors – notably construction – are pressing for incentives. The case for some help for the depressed construction industry is being strongly canvassed and could have a sympathetic hearing in the autumn.

However, faster growth is bound to be inhibited by a combination of the Bank of Italy's continued tight money policy and the squeeze on public spending plus high taxes to bring down the budget deficit. This year's austerity budget – complete with a once-off 'Euro tax' – is removing almost 4 per cent of GDP from the economy in an effort to reduce the deficit to 3 per cent of GDP in line with the Maastricht convergence criteria.

Antonio Fazio, governor of the Bank of Italy, has received stiff comments from business for his approach to monetary policy

Italy's fiscal pressure of 41 per cent is now nine percentage points above the average for OECD countries. Much to the dismay of business, fiscal pressure is due to drop less than a percentage point next year when the 'Euro tax' lapses.

Mr Antonio Fazio, the governor of the Bank of Italy, recently pointed out a reduction in the weight of taxation, combined with increased investment, were the real barriers to growth. He himself has incurred mild criticism from the government and some stiffer comments from business for his rigorous approach to monetary policy.

Well after inflation fell below 2 per cent earlier this year – a 30-year low – the central bank held out until the end of June before conceding a 50 basis point cut to 6.25 per cent in the benchmark discount rate.

Low inflation has been helped by a stronger lira, depressed demand, and lower food prices thanks to cuts in VAT on meat products. But the Bank of Italy's prudence is concerned about the trend in wages which have been rising twice as fast as inflation. As it is inflation is expected to rise again in the second half of the year to average 2.2 per cent. This could be higher if consumer demand begins to take off and if manufacturers seek to raise their margins and introduce higher product prices in the autumn.

The Bank's monetary policy is also conditioned by worries about potential currency instabilities in the run-up to European Monetary Union (Emu). Thus, a further drop in the discount rate – despite the lower rates on treasury paper – is unlikely till Emu uncertainties are clarified and the 1998 budget through parliament.

The government itself has been conservative in calculating interest on 12 month treasury bills (Bot) at 6 per cent next year. Anything lower than this will have an important further positive effect on the public accounts given the size of Italy's debt stock, equivalent to 122 per cent of GDP. As a rough guide, each percentage point drop produces a saving of L15,000bn over 18 months. But for the debt service burden, Italy would be running a budget surplus of over 5 per cent this year.

The government remains optimistic about meeting the 3 per cent Maastricht criteria – and the first half trend in treasury receipts and expenditure is encouraging. But the second half of the year traditionally sees more disbursements; and some suspect the target can only be met with the treasury exercising a real clamp on current spending which would need to be compensated in 1998.

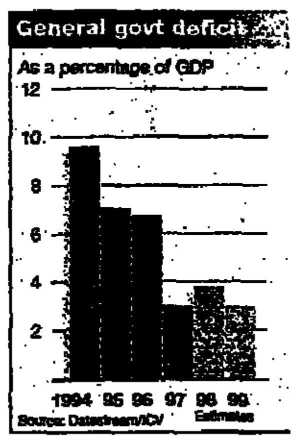
The three year macro-economic programme 1998-2000, endorsed earlier this month by Brussels, envisages bringing the budget deficit progressively down to 1.8 per cent of GDP. For next year this target entails corrective measures totalling L25,000bn.

The 1998 budget, to be presented at the end of September, will find L10,000bn on the revenue side. The bulk will come from changes in VAT (that could also be inflationary). But 1998 will see the implementation of a radical overhaul tax procedures to make them simpler, more efficient and user friendly.

A significant innovation will the introduction next year of a regional tax (Irap), averaging 4 per cent on the value of production which combines seven existing ones – *see taxation article, below*. The main effect of the Irap will be to reduce the tax on profits and make it less fiscally attractive for companies to resort to debt.

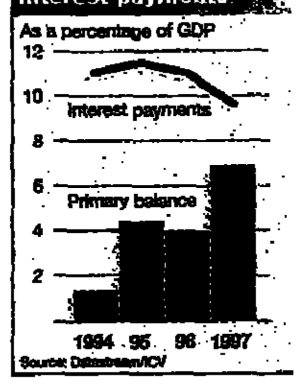
On the spending side, the government is committed to find L15,000bn in cuts, a smaller quantity than the treasury had first hoped. Of this, L9,000bn is due to come from structural cuts in pension and general welfare outlays which will have to be endorsed by the powerful trades unions movement. Failure to reduce pension expenditure – currently increasing twice the rate of GDP growth – could well prejudice Italy's participation in the single currency.

General govt deficit



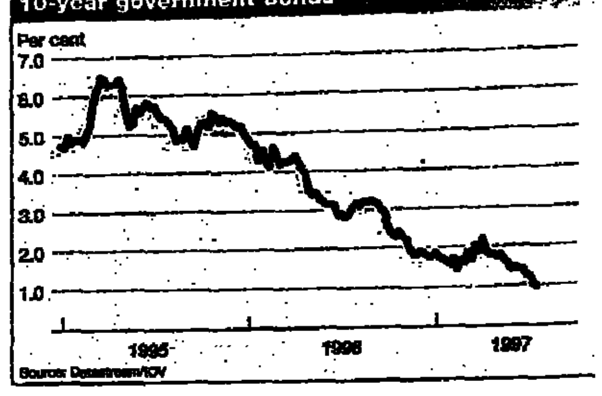
Source: Datastream/ICV

Primary balance and interest payments



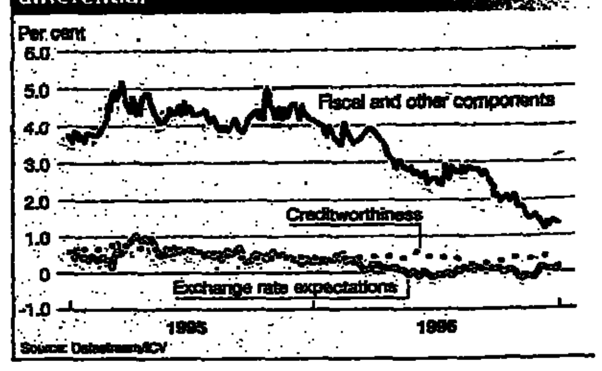
Source: Datastream/ICV

Yield differential between Italian and German 10-year government bonds



Source: Datastream/ICV

Determinants of the BTP-Bund 10-year rate differential



Source: Datastream/ICV

Shoppers throng a Venetian street market: moves are under way to bring Italy's VAT system into line with the European Union. Italy has various VAT levels - for example, 4 per cent on basics such as bread, milk and pasta, but 16 per cent on wines and clothing UPI

TAXATION • by Robert Graham

Far-reaching reforms

Under the old system, 65,000 civil servants administered 120 different taxes with 3,400 tax laws

The finance minister, Mr Vincenzo Visco is introducing the most far-reaching reform of the tax system since Italian governments first made a serious attempt to oblige citizens to pay taxes in 1973.

The aim is to achieve greater efficiency in assessment and collection, simplify and make user-friendly procedures and the number of taxes, while putting less emphasis on income and more on expenditure as a base. Only in this way can fiscal pressure be reduced from the current high of 41 per cent.

Prior to the reforms: more than 120 different taxes existed, plus some 50 fees and stamp duties, backed by almost 3,400 tax laws and decrees; 200m documents received annually by the authorities; 3m tax cases at various stages through the courts.

The ministry employed 65,000 civil servants, backed by the militarised 60,000 strong Guardia di Finanza: it was distributed poorly with fewer in the revenue-generating north than in the poorer south, with too many officials tied up in time-wasting administrative controls.

Revenue losses from tax evasion, due to the 6m self-employed and 4m small companies, is reckoned to be between 4-9 per cent of GDP.

The measures include:

■ **Legislation:**

Approval of the 1997 budget, delegating authority to the finance ministry to reform under 12 laws to be completed by January 1998 and operational for the 1998 budget.

■ **Main innovation:**

Irap, a regional tax replacing five taxes, including the tax on property and business (Ilor) and VAT contributions, while removing burden of health contributions paid by companies, employees and pensioners to central government.

Payments are variable according to region with a maximum 4.5 per cent production tax, accruing to regional administrations. In the south, the level could be 3.5 per cent. Simple to collect and difficult to evade, it will reduce taxation of profits and lower resort to fiscal use of corporate debt; regarded as overall neutral but with savings on labour costs.

■ **Simplification:**

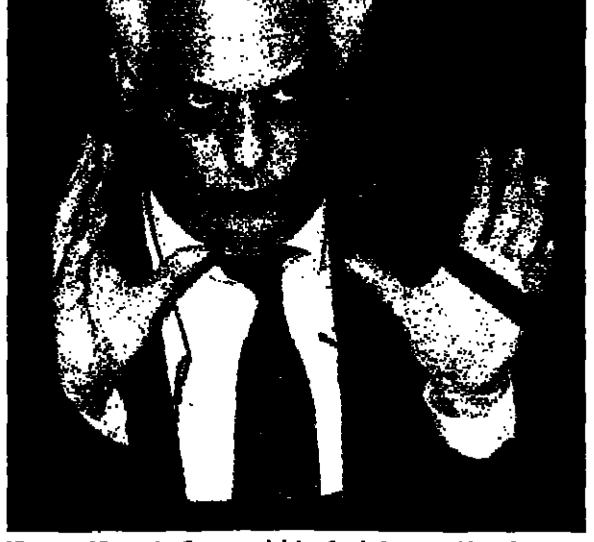
1. The merging of four offices concerned with different types of tax collection into single user-friendly centres for cities and regions. The first experiment has begun at Bologna.
2. Redesign of main income tax form to be more comprehensible.
3. Reorganise tax payments dates to coincide with same days in the month.
4. Remove the stamp on all goods that are transported (bolla d'accompgnamento).
5. Reduce the self-employeds' five declarations and 60 different annual payments to 12 payments.
6. Abolish automatic issue of tax receipts on private consumption items.

■ **VAT:**

Moves in the 1998 budget to bring the system into line with the European Union that call for one/two reduced rates between 5 per cent and 15 per cent and a standard rate of a minimum 15 per cent. At present, there are four rates – 4 per cent (e.g. basics such as bread, milk, pasta plus newspapers, schoolbooks); 10 per cent (e.g. electricity, public services); 16 per cent (clothing, wines, construction materials); 19 per cent standard.

■ **Capital gains:**

The introduction, as of July 1998, of a 12.5 per cent tax on private gains, but this will rise to 27 per cent when companies are sold off. Treasury bills are still taxed at 12.5 per cent on interest, but there is a new 12.5 per cent tax on gain from the sale of treasury bills.



Vincenzo Visco, the finance minister, is aiming to achieve far greater efficiency in tax assessment and collection

PENSIONS • by David Lane

System's shortcomings demand swift action

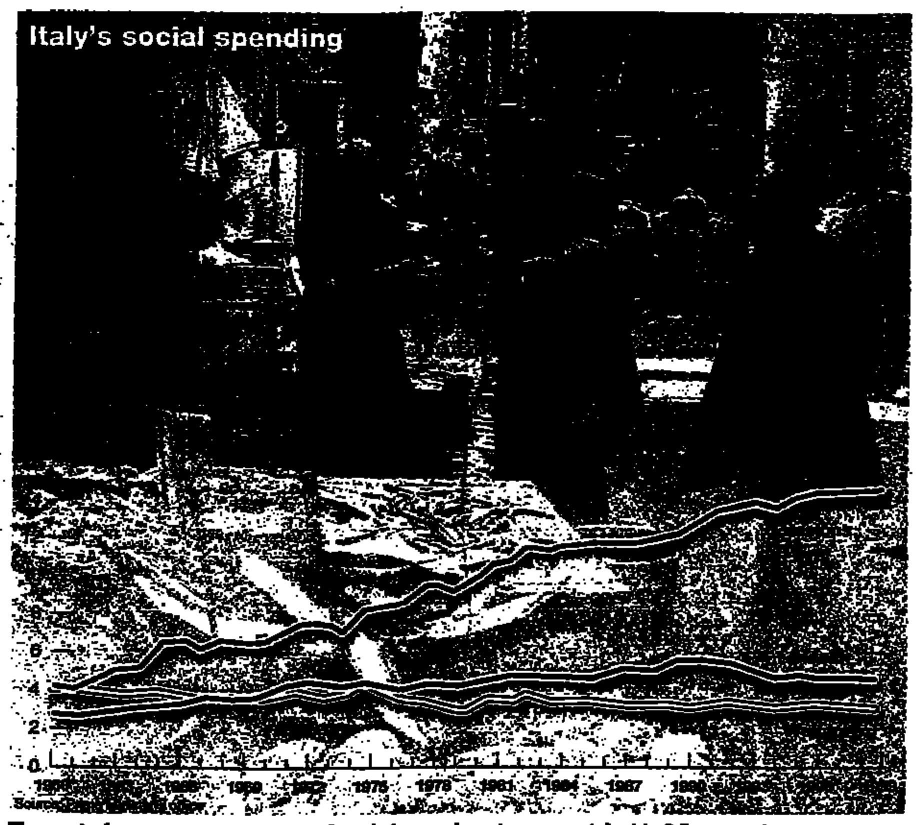
Time is not on the side of an over-subscribed system in need of much more work

To fanfares of self-congratulation, the government, headed by Mr Lamberto Dini, announced its scheme for pension reform two years ago. After a bitter struggle between politicians, industrialists, trade unionists and pensioners, optimists declared that the new system had brought a satisfactory conclusion to the pensions debate.

At last, Italians would enjoy a balanced state pensions scheme that would guarantee an old age untroubled by doubts about the viability of the system, they argued. Sceptics considered, however, that the changes introduced by Mr Dini and his labour minister Mr Tiziano Treu were insufficient, and that it would be necessary to return soon to the subject.

Indeed, that 1995's legislation foresaw a review in 1998 amounted to tacit recognition that not enough had been done. Too lax in the changes that were made and with their application spread over a timescale that is far too long, the Dini-Treu pension reform has collected criticism from economists and accountants in Brussels, Paris and Washington, as well as in Italy itself.

Italy's reformed system is already up for further reformation and discussions were expected to start this month. Mr Innocenzo Cipoletta, director general of the industrialists' confederation Confindustria, says the Dini-Treu reform was disastrous. "It gave the illusion that the pensions problem had been resolved. It is much harder now to explain the need for real change," says Mr Cipoletta. He believes that the situation would be easier if the Dini-Treu legislation had not been enacted.



The cost of generous state-run pensions is increasing at an unsustainable 3.5 per cent a year

Where did the 1995 reform fall short? Above all, the problem is that Italians can still retire at ages that are far from ripe. The Dini-Treu reform failed to tackle this key issue and allows Italians to draw retirement pensions (the "pensioni di anzianita") after 40 years of contributions. Fifty years are not needed: those who start work when 15-years-old can draw pensions when they are 55.

Moreover, the timescale over which the 1995 changes are being introduced is too long. Currently private sector workers need only 35 years of contributions to draw pensions and public sector workers between 20 and 25 years. Only next year will the qualifying period for private sector workers rise to 36 years of contributions: the increase to 40 years is being phased in very slowly.

Eventually, all state pensions will be directly linked to the contributions that have been paid. The system will be continue to be pay-as-you-go, however, with the contributions of active workers being used to pay those whose working lives have finished.

Meanwhile, demographic factors make the system, which pays retirement pensions equal to 2 per cent of annual earnings for each year of contributions, look extremely dicey.

The arrival of post-war baby-boomers at pensionable age is a threat to financial stability. "They can expect to draw pensions for about 25 years on average, at a cost far greater than their contributions," said Mr Cipoletta. He added that another problem is that many of these youngish pensioners then work in the submerged economy, not paying contributions (or taxes) and preventing school and university leavers from entering the labour market.

Istituto Nazionale della Previdenza Sociale (INPS, the national pension fund) was able to count on contributions from about 19m workers in the mid-1960s, while only paying pensions to 7m people, a ratio of active workers to pensioners of 2:7. By 1990 this ratio had slumped to 1:2, as the number of pensioners ballooned. It is now about 1:1, and still falling.

This year, INPS will pay retirement pensions to about 8.2m people, against 7.8m in 1995. The number of widows' pensions will be 3.8m, an increase of 0.1m.

Moreover, average pensions have increased significantly due to a combination of annual pension reviews to take account of inflation and the higher average salaries on which the pensions of newly retired workers are based. The average retirement pension will be L15.3m this year, an increase of 14.2 per cent since 1995. Widows' pensions will have risen by 18.9 per cent over the past two years to L9.3m.

> There are angry claims of corruption involving state pensions

The state fund also pays invalidity pensions through which politicians bought support, doctors being able to take social factors into account when approving applications.

Even after medical factors became the only grounds for invalidity pensions in 1984, the system remained open to abuse. It does, however, now seem under control, and invalidity pensions are the only pensions where the number of beneficiaries is declining. Nevertheless, there are 3.3m who will represent a charge of L35.8trn (L35,786bn) this year.

Crude profit and loss and budget figures from INPS underline why action is urgently needed. The gap between revenues and expenditure was L13.8trn in 1995 and L17.6trn last year. INPS expects that the deficit will widen dramatically this year to L27.5trn. Without further significant changes to the pension system, the drama will heighten as the number of active workers decreases and the number of pensioners – and their average pensions – increases.

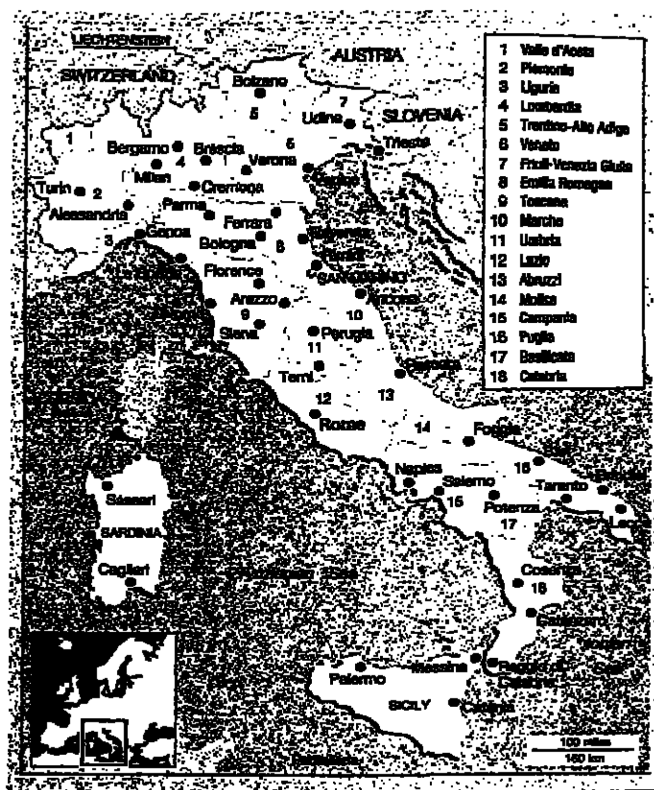
Two years ago, Mr Sergio Cofferati, the general secretary of the CGIL leftwing trade union, said that he did not believe that another reform would be needed. This year Mr Guglielmo Epifani, Mr Cofferati's deputy, said that the upcoming discussions with the government would allow a check on how the Dini-Treu scheme has worked.

"The 1995 changes have yielded important results, not only bringing savings but making the Italian pensions system fairer. I am confident that any shortcomings in the Dini-Treu scheme will be tackled," said Mr Epifani.

Both Mr Epifani and Mr Cipoletta say that parts of the pensions system giving specially favourable treatment are iniquitous and need to be abolished. Vested interests have often prevailed in the past and will certainly fight again to preserve privileges, however.

"There has been generalised corruption through pensions. The granting of pensions to parliamentarians, who have served just one and half legislatures, is scandalous. Parliament should put its own house in order," said Mr Cipoletta.

He is not optimistic about the outcome of the new round of discussions. Five years ago, the government, headed by Mr Giuliano Amato, tightened the pensions system. Two years ago, the Dini-Treu reforms were introduced. Even assuming that that this year's review produces more tightening, it is unlikely to be enough. Smart money is being placed on further changes being needed before the end of the decade.



■ Area: 294,060 sq km
■ Languages: Italian, German and French
■ Population:
■ Main towns and population:
Rome (capital) 2,693,000
Milan 1,371,000
Naples 1,055,000
Turin 962,000
■ Currency: Lira (L). Exchange rate:

Economic summary

	1996	1997 (Forecasts)	1998 (Forecasts)
Total GDP ($bn)	1,213	1,291	1,371
Real GDP growth (annual % change)	0.8	2.1	2.0
GDP per head ($)	21,200	22,500	23,900
Inflation (annual % change in CPI)	3.9	3.0	2.9
Unit labour costs (annual % change)	4.7	3.4	n.a.
Industrial production (annual % change)	-1.5	2.0	1.7
Unemployment rate (% of workforce)	12.0	11.9	10.8
Government expenditure (% of GDP)	52.8	51.6	50.7
Govt. financial balance (% of GDP)	-6.4	-4.5	-3.0
Public debt (% of GDP)	124.3	123.3	122.2
Current account balance ($bn)	34.3	44.5	41.3
Merchandise exports ($bn)	236.2	254.3	271.6
Merchandise imports ($bn)	185.8	191.9	212.2
Trade balance ($bn)	50.4	62.4	59.5
Short term interest rates (%)	8.8	6.6	6.4
Long term interest rates (%)	9.6	8.9	6.8

Main trading partners (share of total trade to world, 1995)

Constitution

• **Legal system:** Based on constitution of 1948
• **National legislature:** Bicameral: Senate of 315 seats; Chamber of deputies of 630 seats
• **National elections:** April 21 1996; next election due by April 2001
• **Head of state:** President, currently Oscar Luigi Scalfaro, elected for a seven-year term by an electoral college consisting of the senate, the Chamber of Deputies and representatives of regional councils. The president is responsible for choosing the prime minister and nominating a number of Supreme Court judges but has no executive powers.
• **National government:** Council of Ministers headed by the prime minister appointed by the president on the basis of the ability to form a government with parliamentary support. Romano Prodi, the leader of the Ulivo coalition, was asked to form a new government by the president on May 18 1996
• **Political coalitions:** There are two main political groupings: L'Ulivo (Olive Tree) which forms the government and Il Polo per la Liberta (Pole for Freedom) which is the main opposition

THE LABOUR MARKET • by Paul Betts in Milan

Unemployment, the country's biggest headache

Although the employment problem of southern Italy is extreme, difficulties in the job market have spread to other parts of the country

Italy's restrictive fiscal and monetary policy has achieved impressive macroeconomic results this year and increased Italy's chances *of joining the first* wave of countries in the European economic and monetary union in 1999.

But if the government is becoming more confident by the day of meeting the Emu targets, this has not produced a "feel good factor" in the country at large. If anything, it has created a "feel bad factor".

The price of the government's tight fiscal policy has been high on economic growth. So much so that Mr Antonio Fazio, the governor of the Bank of Italy, has become increasingly concerned about the overall impact of taxation, and has urged the government to ease Italy's heavy fiscal burden to avoid too many taxes stifling the country's tentative attempts at economic recovery.

At best, Gross Domestic *Product will grow this year* by around 1.2 per cent. Most economists expect the figure to be lower at around 1 per cent, if that. Next year, GDP is expected to expand by about 1.8 per cent to 2. But this modest improvement is unlikely on its own to arrest the declining trend in employment which is rapidly becoming the single biggest challenge facing the country.

For over the last 20 years, only annual growth rates of more than 5 per cent in industrial production have managed to reverse, and then only for very limited periods, the falling trend in manufacturing employment.

"The slow growth now programmed will simply not be sufficient to compensate *for* jobs lost to technology," says Mr Sergio Cofferati, the secretary general of Cgil, Italy's largest labour confederation. "The government must now take steps to give at least a boost to those areas of the country worst hit by unemployment," he adds.

Mr Cofferati believes that the country's richer northern regions will benefit most from the modest recovery in growth. "The real challenge in the next two years is tackling the employment problems of the Mezzogiorno or poorer south of the country," he explains, echoing the broad consensus among poli*ticians, unions and employ*ers that the situation in the south risks becoming explosive unless measures are quickly taken to revive economic activity in the Mezzogiorno.

The annual unemployment rate is currently running at 12.2 per cent but this does not tell the whole story. The unemployment rate in the north is around 5 to 6 per cent, while in the south it is at an alarming 23 to 24 per cent. This, of course, does not take into account the huge level of employment in Italy's thriving "black economy" in both the northern and southern parts of the country.

"If it were not for the jobs in the submerged economy, social cohesion would be impossible to maintain in the south with unemployment rates of 23 per cent to *24 per cent," Mr Cofferati* says.

The unions have now linked new job creating initiatives for the south as a prerequisite for any eventual wider agreement on the *reform of the country's* costly welfare and pension system. They see three essential areas of action: a large-scale publicly supported infrastructure programme; new fiscal incentives to encourage job creating investments; and a resolute campaign against crime.

For years, successive Italian governments have promised to launch a blockbuster infrastructure programme in the south. Poor infrastructures have held back the development and modernisation of the Mezzogiorno. Unless an efficient transport network is established in the *south, even willing investors* will continue to be reluctant to set up new manufacturing or service activities because of the cost and difficulties of communications.

But crime has undoubt*edly become the biggest* obstacle to development. "Investors simply must be protected from the criminal underworld at the same time as having an efficient structure of services around them if they are to be attracted south," says Mr Cofferati.

Although, in recent years, the Italian authorities have scored a number of important victories in their fight against the Mafia and the big organised crime families, they are now facing a new and different wave of crime from smaller criminal elements.

This "micro-criminality", as it is called, has been *spreading at an alarming* rate. The government, for example, was recently forced to send in troops to Naples to try to halt a sudden surge of Chicago-style shoot outs on the streets of the city between different criminal gangs. Innocent people have been killed in the cross fire. The dramatic events in Naples have inevitably grabbed the front page headlines describing the city as Italy's "Far West". Over*night, they have undermined* the city's efforts of the past years to revive its image and attract new business.

> Crime has undoubtedly become the biggest obstacle to development

In recent weeks, there have been growing calls to use European Union funds *already allocated but so far* not used to support the Mezzogiorno in its efforts to fight crime and corruption. "The paradox is that the EU has allotted considerable funds for the south and yet because of our bureaucracy they have not been tapped," explained a Naples city official.

Although the employment problem in the south is extreme, difficulties in the job market have also spread to other parts of the country. In large measure this is the result of continuing rigidities in the Italian labour market and the exorbitant labour charges faced by *employers which can effec*tively double wage costs. In turn, this has discouraged companies from hiring new people.

Italian employers have argued that greater flexibil*ity in hiring and firing* would encourage job creation. They have also proposed a new approach to national wage settlements whereby wage levels in the south would be automatically lower than in the north.

The unions have rejected this proposal although in practice wages are already about 15 per cent lower in the south than in the north. The unions also claim that there is considerably more flexibility in the Italian labour market than employers like to admit. For example, Italy's unique system of temporary lay offs coupled with government support for job transfers (or labour mobility) have considerably softened the burden of corporate restructurings.

Concessions will inevitably have to be made on both *sides in the current* round of negotiations over the reforms of the Italian welfare system and the labour market. The government hopes to arrive at an acceptable compromise by the end of September to maintain its all important timetable for Emu membership.

There is bound to be much sound and fury in the coming weeks. But all parties know that the stakes are high. They also know that the risks of failure are likely to have devastating long term effects – especially in the Mezzogiorno.

Poor infrastructure has held back the development and modernisation of the Mezzogiorno, the less-prosperous south of the country. The scene, above, is in Monteverde, Avelino Picture: Roger Taylor

Employers have proposed a new approach to national wage settlements, but the unions reject these plans. Pictured here is an electronics testing line in Scarmango, near Ivrea Picture: Trevor Humphries

Stockbrokers in Milan: a string of sales have included the privatisation of the Italian stock exchange

PRIVATISATION • by Paul Betts

Government has been forced into a series of compromises

The problem, as always in Italy, has been one of vested interests. Compromise solutions have inevitably watered down the scale and depth of the privatisation process

For all the fine words spoken, few believed at the beginning of this year that the Italian centre-left government would succeed in giving concrete impetus to its long drawn-out privatisation programme. It was going to be the same old *story. Long speeches, big* commitments but at the end of the day very few practical results.

Yet by the end of this year, the government will have probably pulled off a *remarkable feat, raising a* record amount from a whole series of state sell-offs ranging from the so-called "mother of all privatisations" with the flotation of the Stet-Telecom Italia tele*communications group to* a bevy of smaller, but nonetheless significant, deals.

Already in June, the treasury raised more than L13,000bn with the sale of a third tranche of shares in ENI, the oil and gas group. The equity offering, in which the government's stake in ENI was cut to 51.5 per cent, was Italy's largest so far and was three times over-subscribed.

A few days after the successful ENI sale, the government began a string of other deals including the sale of the Autostrade motorway company, the privatisation of the Italian stock exchange, the sale of a 41 per cent stake in the Rome airports authority and the disposal of the Seat, the company which publishes yellow page telephone directories.

The government hopes to complete all these deals by the end of the summer or early autumn to clear the way for its most ambitious privatisation this year – the flotation of Stet-Telecom *Italia. After much political* controversy and years of procrastination, the telecoms privatisation now seems all set to go.

Since being brought in in January to speed up the tele*coms privatisation, Mr* Guido Rossi, the Stet-Telecom Italia chairman, has already prepared for the autumn sale merging the Stet holding company with its main operating company Telecom Italia and negotiating an international strategic alliance with AT&T of the US for the Italian company.

The government has gone even further. It has systematically replaced the old barons of state sector companies with a new generation of professional managers, who have far fewer political ties and a much greater commitment to modern business practices.

The biggest shake-up has involved the IRI state holding company where a new top management has recently taken over with the brief of selling off all the group's remaining share holdings – ranging from broadcasting and aeronautics, to shipbuilding and shipping – during the next three years. But it would be misleading to think that all *this privatisation activity* reflects a conversion on the part of Italy's political establishment to the virtues of the free market.

Indeed, there is no great *ideological commitment behind all the internal* restructurings and disposals currently sweeping Italy's traditionally elephantine state sector. If anything, what is driving the process is simple necessity – the *need to put the country's* public finances in order, to reduce IRI's huge indebtedness in order to adhere to the agreements made with Brussels, to adapt public sector companies to greater liberalisation and international competition.

The general awareness of the need for change has helped establish a tentative political consensus over the privatisation programme. But it has not been easy and the government has been forced into a series of compromises which have inevitably watered down the scale and depth of the process.

The problem, as always in *Italy, has been one of vested* interests. And without these compromises, attempts to tackle significant new privatisations would have become bogged down in political dogfights as in past years.

The Refounded Communist party, on whose support the centre-left government of Mr Romano Prodi relies, have opposed on principle the sale by the state of its majority interest in so-called strategic sectors of the economy. It was firmly against the telecoms privatisation and only accepted the sell off when the government introduced a golden share to give it veto rights in key deci*sions once the telecoms com*pany was privatised.

Acceptance

Mr Rossi, the Stet-Telecom Italia chairman, has been a *long-time opponent of golden* shares. Yet on this occasion he accepted its introduction to enable the privatisation to move forward.

Judging from the heavy market appetite for ENI shares, the government could have easily increased even more the size of the third ENI tranche in June. But that would have meant seeing the government's stake drop below 50 per cent with the risk of provoking a political confrontation which could have affected other planned disposals.

The reluctance to shed majority control of some leading state sector groups has led some government critics to describe the Italian government sell-offs not so much as a privatisation but a *"semi-privatisation"* process.

The difficulties and slowness of setting up the necessary regulatory bodies to oversee new deregulated sectors of the economy is *another sign of the ambigu*ous attitudes and mixed feelings towards privatisations in Italy.

Not only have politicians been reluctant to see their state industry power bases diluted by *liberalisation*, but even the new breed of professional state sector managers have been anxious to preserve, for as far and as long as possible, their pro*tected position in the domes*tic *market*.

Despite all these misgivings, 1997 is likely to prove a good year for privatisations in Italy, helped by a buoyant stock market and growing optimism over the country's *chances of making it into* the new European single currency.

However, a bigger test of the country's resolve to embrace a true open market will come next year when the government is due to privatise the giant state electricity utility, Enel.

The unions and the Refounded Communists as well as a number of other political forces firmly oppose the project. And already a compromise of sorts is emerging – "yes" to electricity liberalisation which Italy will have to introduce to comply with European Union directives; "no" to the state selling control of Enel.

Sales of the third tranche of shares in ENI, the oil and gas group, raised more than L13,000bn

Sell-offs managed by the Treasury:

List of operations, with date of sell-off and gross revenues in billion lira:	*Revenues*
IMI, first tranche, January-February, 1994	L1,794.5bn
INA, first tranche, June-July, 1994	*L4,530.4*
IMI, second tranche, June-July, 1995	L913.3
INA, second tranche, September-October, 1995	L1,688.6
ENI, first tranche, November-December, 1995	L8,299.4
INA, June 1996	See footnote*
IMI, thrid tranche, July 1996	L501.3
ENI, 2nd tranche, October-December, 1996	L8,872.2
Banco di Napoli, June 1997	L61.6
ENI, third tranche, June 1997	L13,300
Total revenues	L37,959bn

*The Treasury issued bonds, convertible in INA shares, to the value of approximately L3,200bn; data source: Treasury figures

CONSTITUTIONAL REFORM • by Robert Graham

A vision becomes a hybrid

The desire for a new presidential system is beset by ill-considered planning and squabbling between politicians

The politicians have spent six of the past 12 months arguing over how to approach constitutional reform and the remainder haggling over proposals. For a government with so manifestly little sense of state, it is not surprising the blueprint for change – agreed at the end of June by the constitutional reform commission – should be a disappointing hybrid.

Indeed, the proposals which will occupy parliament well into 1998, and perhaps beyond, are so ill-thought through, and in many instances ambiguous, that the process of reform could yet be hijacked. This is especially the case with the key recommendation to transform the present largely ceremonial figure of head-of-state into a directly elected president possessing some executive powers.

If approved the proposals would introduce three historic changes to the 1948 constitution: a shake-up of the executive powers shifting towards presidential control; an end to the bicameralism separating the functions of the two houses with the chamber of deputies to have the prime legislative responsibility; and a shift away from the centralised state to a more federal model that gives greater autonomy to the regions.

The 70-person commission, formed from the two houses of parliament, began work on February 11 with two over-riding aims. At one level, the politicians wanted to find ways to produce more a stable government, ending the short-term post-war administrations which have lasted, on average, less than 11 months. At another level, there was general agreement that the executive and legislative processes had to be made more efficient to cope with the needs of a modern state and Italy's integration within the EU.

Guardsmen in Rome at the Palazzo del Quirinale, occupied by the president of Italy

The 1948 constitution was conceived with the noble aim of putting behind the fascist era. But in seeking to prevent a repetition of the authoritarian Mussolini experience, the republic gave birth to weakened institutions, often with mutually balancing powers. Over five decades this has led to an increasingly paralysis of government.

At present, the president is elected by parliament for a seven-year term and has the power to appoint prime ministers and dissolve parliament. In practice, the head-of-state had been given the job as a result of deals struck between the leaders of the main parties, to whom he was beholden. The only real power in his hands has been that of moral suasion.

President Oscar Luigi Scalfaro has proved something of an anomaly in this context. The politicians who brokered his election in 1992 have either disappeared or been discredited. The vacuum of power caused by the collapse of the post-war political parties has thus enabled the president to acquire greater influence.

Changes in the electoral law in 1993, introducing two-thirds of parliamentary seats voted by a first-past-the-post system, have also altered the balance of power set up by the constitution.

Prior to 1994, voters had no idea who would become premier after a general election or indeed what parties would form the government: they simply voted for a party. Now the electorate votes for a government and premier, not just a party. The premier thus benefits from popular endorsement – as in the case of Mr Silvio Berlusconi in 1994 and Mr Romano Prodi in 1996.

Nevertheless, the premier remains weak institutionally, being unable to dismiss his ministers other than through forcing the resignation of the entire cabinet.

To strengthen the executive, the commission voted (51 for, nine against, three abstentions) to introduce a directly elected president with a six-year term. The head-of-state will have responsibility for defence and foreign policy, and be able to dissolve parliament. This is a weaker and more ambiguous version of the French presidential system with the potential for a far more unstable "co-habitation".

Parliament will possess an important counter-veiling power of monitoring the government. If one-fifth of the deputies approve a no confidence motion which then passes, the government falls.

The president will be obliged to chose as premier the leader of the party or coalition with the most parliamentary seats. Unlike in France, the president will have no direct say in economic policy which will be the exclusive domain of the prime minister. Nor is it clear how the new Italian president would be able to impose foreign decisions which ran against a majority in parliament or which conflicted with economic policy.

The confusion and ambiguity in the proposals reflects the horse-trading between the parties to achieve a compromise. The right-wing opposition parties pressed for the presidential system, while the ruling centre-left parties wanted to introduce a strong prime minister more in the British style.

The deciding votes were cast by the populist Northern League, who otherwise boycotted the proceedings. Parliament must now consider these proposals – twice in committee in each house – and then in full session. This gives ample opportunity for change since a two-thirds majority in both houses is required to alter articles of the constitution.

The reforms, as sketchily outlined by the politicians, promise no significant improvement in executive authority. They also duck the key issue of what type of electoral system will accompany the reforms. The commission has accepted a working document that will be discussed in the autumn which envisages a new system for parliamentary elections. This, however, would preserve the role of the small parties – the main source of Italy's political instability.

Under the current proposal, the residual 25 per cent of seats elected by proportional representation would be preserved. The bulk of the seats would be elected by the current first-past-the-post formula but a portion would given to the leading coalition as a "premium" to ensure the necessary parliamentary majority.

The one area where sensible reform have been adopted concerns the changing roles of the two houses of parliament. To avoid time-consuming duplication, the chamber of deputies will have prime responsibility for legislation and the senate will adopt more of a monitoring and guarantee role.

Membership of the chamber will be cut to 400 from 630 and the senate to 200 from 315. Moves to transform the senate into a purely regional representative body were rejected. But a new regional commission will be set up under the aegis of the senate in order to channel the specific concerns of regional and local entities in what is to become a more federal state.

The swing towards federalism envisaged by the commission accommodates few of the demands put forward by the secessionists in the Northern League. The state will retain a total of 31 defined functions – most importantly defence, economic and monetary policy. The regions will be acquire a degree of fiscal autonomy, but there will also be a solidarity fund to ensure transfers from rich to poor regions.

President Oscar Luigi Scalfaro: the vacuum of power caused by the collapse of various post-war political parties has enabled the presidential role to acquire greater influence

In practice, these proposals will be seen less as federal and more as devolution to ensure a more efficient and more locally accountable operation of public sector activities. Existing regions with specific historic statutes – such as Sicily – will remain untouched.

Sicily report: Professor Provenzano enhances planning in Palermo, page 7

RUNNING THE GOVERNMENT • by Robert Graham

More than just a façade

The contrast between the UK and Italy's political set-up provides two interesting applications of power

Comparisons are always invidious, but a recent seminar on running the prime minister's office revealed striking differences between Palazzo Chigi in Rome and Number 10 Downing Street in London.

Starting at the architectural level, the Italian prime minister occupies a 16th century "palazzo", while his British counter-part works in a Georgian town house. But it was not so much the nature and scale of the respective buildings that really stood out. Rather it was the enormous difference in the size of the staff in and around the respective prime minister's offices.

The Italian prime minister's office employs 4,500 people of whom some 1,500 are external in the form of advisers and contract staff. Apart from being in Palazzo Chigi and two neighbouring palazzi, the prime minister's office leases 17 other buildings, mostly in and around Rome. In comparison, the British prime minister has 100 direct staff and a further 100 backing him up in the cabinet secretariat, all housed in two buildings with an inter-connecting door.

The difference in numbers is partly explained by the Italian prime minister's office covering a broader area of responsibility. It has for instance many of the functions of Britain's Central Office of Information. It also has responsibility for bodies as varied as the committee for conserving the Leaning Tower of Pisa, the equal opportunities commission and the commission for ethics in bio-technology. But excess staff can be found at all levels of the decision-making process.

The seminar, under the auspices of the British Council, was told the operational staff of Palazzo Chigi could be cut by half. This would involve refinement of the 1988 legislation providing for the organisation and operation of the prime minister's office.

Until 1988, the prime minister's office had no independent budget and thus there was no real control over expenditure. Even the nine-year-old legal framework has proved cumbersome, and complex norms need to be negotiated in such mundane areas as obtaining authorisation to pay for the supply of refreshments during cabinet meetings.

Those observing the operation of Palazzo Chigi said one of the principal problems lay in the quality of staff. Despite the prestige of the office, many top quality civil servants were discouraged from taking jobs because of the high turn-over of prime ministers and the tendency to recruit large numbers of highly paid external advisers – seven-times premier Mr Giulio Andreotti had, at one stage, more than 140. Someone likened a prime minister's term to the shooting of a film – once the film was over the entire production staff was dissolved.

Continued on next page

FOREIGN POLICY: THE ALBANIAN CHALLENGE • by Robert Graham

Halting the influx

Responsibility for righting the recent chaos has fallen to a reluctant neighbour forced to go it alone

Albanians at the Italian port of Brindisi, aboard a rusting navy vessel Picture: Popperfoto/Reuters

The sight of rusting freighters, decks packed to standing with Albanians seeking refuge in Italy, has been one of this year's most powerful images.

This is, perhaps, fitting since Albania has proved Italy's greatest foreign policy challenge since the collapse of the Berlin Wall. At one stage in April, the Prodi government nearly fell over the despatch of Italian troops to head a multi-national humanitarian mission. Although the delicate mission has gone off as well as could be hoped in appallingly complex conditions, the troubled state of Albania will remain high on the agenda.

For two weeks in March, thousands of Albanians made a sea-borne exodus to Italy in any craft available – military and civilian. The Italians authorities could do little to stop what commentator Mr Sergio Romano called "humanitarian blackmail". Ostentively, the Albanians were fleeing anarchy in their country following the collapse of pyramid financial schemes. But in most cases ruthless criminal gangs took advantage of the chaos to organise a cynical trade in human flesh.

They charged large of sums of money to ferry men, women and children across the narrow stretch of the Adriatic to a safe haven in Italy where they could hopefully not only find shelter but a new life. It was illegal immigration dressed up as political exile. In the first week alone, the Italian authorities registered over 10,000 such arrivals. By mid-April it had topped 16,000, with the Albanians distributed in camps in southern Italy and reception centres throughout the country.

The Italian navy briefly operated an interdiction policy, designed to prevent Albanian vessels either leaving their home ports or entering Italian ports. This was stopped after a tragic incident in which some 80 Albanians died, when a packed naval launch sank after colliding with an Italian naval vessel. An enquiry is in progress to establish the precise circumstances and the Italian government has pledged to try and recover the wreck to offset Albanian outrage over the incident.

Presented with a fait accompli of Albanians arriving in the southern ports of Bari, Brindisi and Otranto, the government agreed to give temporary three-month shelter to most, only turning back those with identifiable criminal records. By mid-July at least 2,500 of these had already "disappeared", lost in Italy's network of clandestine immigration – already well-penetrated by Albanians who are now reputed to control the main prostitution rings.

All the Albanian temporary exiles have until the end of August to leave the country; but the government will have to provide some incentives to makes them return. As it is, those who entered Italy in this way were only a part of those who entered illegally via Albania, where the mafia in the southern port of Vlorë operates an important transit route for those seeking to reach Europe from the Middle East and Indian sub-continent. And Italy's record on expelling illegal immigrants is poor – last year only a tenth of the 75,009 expulsion orders were executed.

Italy found little international sympathy for its plight over Albania. Most EU partners passed the buck, pretending Albania was Rome's backyard problem. Thus the Prodi government was obliged to organise and lead a multi-national military mission to ensure a return to normalcy in the Balkan state.

This mission with a pronounced "humanitarian" aim proved an arduous task. The US declined to participate, as did Germany and the UK. The US and the UK were reluctant to become further involved in the Balkans when they already had important commitments in ex-Yugoslavia.

The UK was also wary of the Albanian venture turning into an exercise to develop an EU defence forum outside the context of Nato. In the end, Italy obtained the blessing of the United Nations and the eight-nation mission got under way in mid-April under the aegis of the Organisation for Security and Co-operation in Europe.

Divisions

Even so, it proved far from simple to win Italian parliamentary backing for the mission. The ruling centre-left coalition split on the issue with the hardliners in Reconstructed Communism (RC), voting against the government in a confidence motion. The government would have fallen but for the support of the right-wing opposition. RC refused to endorse the venture, partly on pacifist logic.

The party had also refused to back Italy's participation in the Restore Hope humanitarian mission to Somalia in 1992. But RC members also feared the mission would become embroiled in internal politics, propping up President Sali Berisha against the socialist-led government.

Since mid-April, Italy has provided logistical support for the entire mission, and assumed military command after despatching 2,500 troops – the biggest contingent – followed by France and Spain. Despite the presence of armed gangs and awkward rules of engagement to prevent active intervention, the elections went ahead at the end of June. A second round was staged in early July in conditions considered acceptable by international observers.

The initial 45-day mandate has been extended by a similar period to cope with the confused post-electoral situation. On top of this, Italy will have to play a key role in organising an economic recovery programme.

Having always hidden behind the coat-tails of others on foreign policy, this has been a rough initiation. The government faced some awkward moments – such as when the Italian ambassador in Tirana was replaced after being exposed by an eavesdropping device as being sympathetic to President Berisha. In general, the government has kept its nerve. The military have meanwhile acquitted themselves – avoiding much provocation while developing a joint command between the three service arms for the first time.

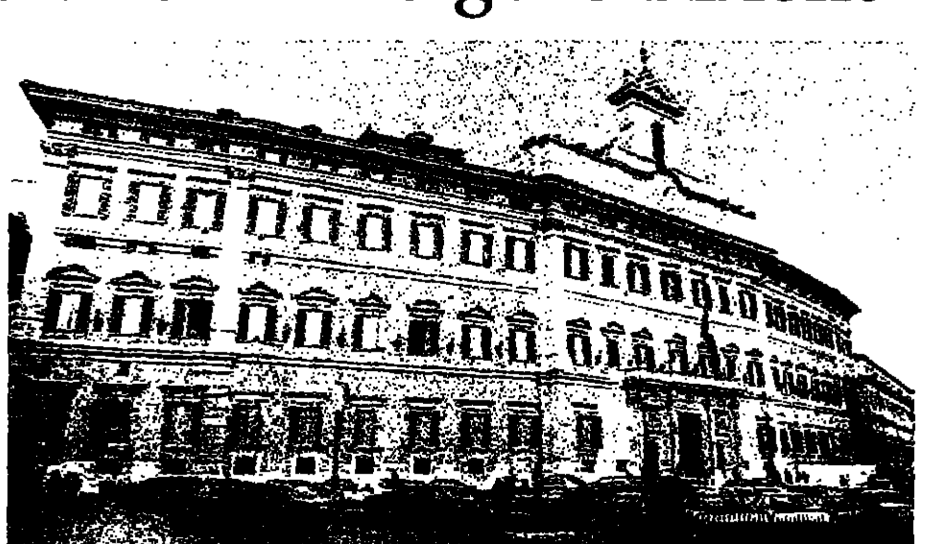
Albania has shown up the limitations of Italy's ability to play a dominant role in such policy initiatives. Domestic support for military missions is fragile, especially if casualties are in prospect.

Revelation of torture practiced on civilians in Somalia by Italian paratroopers (now being investigated) has raised questions about military discipline overseas.

Finally, the armed forces themselves lack sufficient equipment and enough professional troops. Indeed, one outcome of the Albanian experience is likely to be the acceleration of moves to bring more professionalism to the military forces.

Moves to streamline government

From previous page:



Palazzo Di Montecitorio in Rome, the Parlament building

The constant post-war changes of government also tended to give a very ad hoc nature to the structure of policy-making. For instance, the British prime minister relies on a tight-knit policy unit of 15 people which, nevertheless, provides an important input on cabinet policy initiatives. The British cabinet itself is concerned with formulating and endorsing policies. In contrast, the Italian cabinet concentrates on endorsing legislation already drawn up which is then considered – and often altered – by parliament.

Furthermore, the prime minister's office does not yet have the same co-ordinating function and powers as its British counter-part. The Italian administration is conditioned by mistrust and rivalries; while British civil servants work with each other on a basis of trust.

Interestingly, in Italy there is no distinction within the prime minister's office between those working on government business and those concerned with that of the ruling party or coalition.

At Number Ten, there is a political office with a small staff all paid out of party funds which assists the prime minister with his duties as party leader. But in Italy the tradition differs since party leaders, with the exception of socialist Mr Bettino Craxi, have avoided being prime ministers. They have preferred to operate through the premier as a proxy.

The Prodi administration is determined to cut out dead wood and introduce a more professional policy unit. But the management of the Italian prime minister's office will remain unique for the foreseeable future.

The Italian civil service encourages little devolution of responsibility for even small issues, thus reducing the amount of time to deal with weightier matters.

More importantly, the Italian political system encourages the existence of small parties and coalition governments. The prime minister is not the sole source of power and patronage since the premier is not free to choose his ministers. This in turn allows individual ministries to become autonomous, making co-ordination more complex, while encouraging a larger government apparatus.

The British system, on the other hand, vests all patronage in the prime minister who selects his cabinet whose political future is entirely in his hands. Matters could change if the Italian prime minister is allowed a free choice in selecting and firing his ministers.

BANKING AND FINANCE • by Paul Betts

Merger mania is set to accelerate

Future European integration is encouraging consolidation for the benefit of competition

Italians have a bad Catholic habit of embracing pious thoughts and good intentions but then doing very little about it, says a veteran Milan banker. "There is always the confessional," he explains.

That said, when the things become difficult and one of the parishioners breaks ranks, the results can be quite dramatic, and this is especially the case in the country's troubled banking sector.

Since the beginning of this year, the Italian banking industry has been in the throes of radical change. Mr Giuseppe Zadra, general manager of the Italian banking association, describes what is happening as an "earthquake". His view is shared by many. "This is the year when consolidation and restructuring is finally taking place," says a senior executive of a big US investment bank.

It all started with the rescue of Banco di Napoli by Banca Nazionale del Lavoro and the INA insurance group which will eventually create a substantial new banking group. Other large Italian banks could not remain indifferent. The charitable foundation which owned Istituto San Paolo di Torino, Italy's biggest banking group, surprised the markets with a swift and successful privatisation completed in May.

It is now being followed by another charitable foundation Cariplo which owns the country's largest savings bank. By the end of this year, Cariplo will be privatised through a merger with the private Banco Ambrosiano Veneto which will lead to a new banking concentration rooted in the rich northern regions of the country.

Cassa di Risparmio di Verona and Cassa di Risparmio di Torino are also combining their activities and have acquisitions plans to strengthen their banking group. Credito Italiano, which has been at the vanguard of the restructuring process in the industry, has already acquired control of a profitable regional bank based in Bologna which was renamed this year Rolo Banca 1473, itself the product of an earlier merger between Credito Romagnolo and Carimonte.

The privatised Banca Commerciale Italiana has recently strengthened its ties with Assicurazioni Generali, the country's biggest insurer, and has been on the look out for a big banking acquisition. It had hoped to negotiate a strategic alliance with Cariplo but was outmanoeuvred by Banco Ambrosiano Veneto.

As for Mediobanca, Italy's most influential merchant bank, it too has been forced to adapt to change, painful as this may be. For four decades Mediobanca enjoyed a near monopoly position in Italian merchant banking but it has increasingly faced competition from other Italian credit institutes and international investment banks.

In June, the secretive Milan merchant bank was rocked by an internal clash between its old guard and its younger generation of executives anxious to see the bank reform its structures and approach to business in Italy's new, more open and competitive banking market. What was unprecedented was that the row was made public, reflecting the depth of the problems and challenges facing the merchant bank.

Indeed, there is already speculation that Mediobanca too will become caught up in the growing trend of banking consolidation by eventually linking up perhaps with its close ally Banca Commerciale Italiana.

All this change and activity is not a sudden conversion to the virtues of the open market. It is, as one leading Italian banker put it, a simple question of necessity, even survival. With increasing European integration and growing international competition, this trend has been apparent for some time for the Italian banking system.

The pressures have further intensified, with rising expectations that Italy, after all, will probably make the European Monetary Union deadline and join the first wave of countries qualifying for the new single currency.

The problems confronting the industry are multiple. For the past two years, its earnings have been dismal, with an average return on equity of about 2 per cent against 20 per cent in the UK. Years of government control and strict labour laws, compounded by poor use of technology, have made the system highly inefficient.

Costs are huge. Staff costs alone, according to the Bank of Italy, are 50 per cent higher than the European average. But it is not just a question of improving efficiency at the lower echelons. Management has long been a problem. "Good managers are a resource in short supply in the Italian banking system," says a US merchant banker.

At the same time, most banks have relied too long – and many still do – on traditional large interest rate spreads between deposits and loans in Italy. With interest rates falling in the last six months, these spreads have been narrowing.

As a result, the banks have been forced to develop higher-fee businesses and new products offering more value added providing customers with more specialised and focused services.

The industry is now negotiating with the unions a programme to cut around 40,000 jobs, introduce more flexible working practices and performance-related pay. But these negotiations are proving tough, and so far banks have found it difficult to launch sweeping internal restructurings.

Although improving, Italian banks have also been saddled with bad loan problems following the lending boom of the 1980s and the subsequent corruption scandals of the 1990s which saw some of the country's biggest companies go to the wall.

The industry's overall problems have been exacerbated by its high level of fragmentation. The country's three largest banks still account for about 20 per cent of the domestic market compared with more than 80 per cent in the Netherlands and 50 per cent in the UK and Switzerland.

At the beginning of last year, Italy still had 970 banks. This figure is now finally set to decline. The rash of deals, privatisations, mergers and strategic alliances of the past few months suggests that the full-scale restructuring of the Italian banking system has started for real.

CIVIL SERVICE REFORMS • by David Lane

A battle to cut bureaucracy

The bloated civil service could change forever – if one minister has his way

According to legend, Italians are burdened with 150,000 laws and regulations. Whether or not this figure is correct, few would dispute Italy's claim to the slowest, most complex and contorted bureaucracy and legal system in western Europe. Little wonder, therefore, that Italians often show flagrant disregard for the myriad rules and regulations to which they are apparently subject.

Even where these are aimed at the citizens' benefit, such as traffic laws covering one-way streets, pedestrian crossings and seat belts, they are flouted. Such law-breakers are not infrequently the uniformed servants of state and city. The average Italian's lack of respect for authority is understandable, and so is the fragile trust between citizen and state.

If Mr Franco Bassanini, the civil service and regional affairs minister, has his way, relations between Italians and authority will change radically and for the better. Mr Bassanini has been busy since becoming a minister one year ago. In March, the Senate approved a law that allows the government to reform the civil service and simplify the country's administrative structure.

In May, urgent measures were enacted "to speed up administrative activity and decision and control procedures".

While not confirming the existence of 150,000 laws and regulations, Mr Bassanini, a former university professor of constitutional law, admits that Italy is far too regulated. "There are many more laws and regulations than in other countries, and an enormous number of them are obsolete. A thorough clean-out is needed," he says, describing the present situation as "Byzantine".

"Do people know that official permission is needed to donate books to school libraries or computers to parish youth clubs?" he asks. This requirement dates from laws enacted in 1855 and 1896 and has led to numerous absurdities, such as the pulping of 250,000 books that a publisher wanted to donate to public libraries in Piedmont. Each book would have had to be valued and be given approval for donation, an enormous cost in terms of time and money that neither donor nor recipient was willing to incur.

Mr Bassanini has three main objectives. First, he wants to de-regulate by reducing the number of rules that impinge both on the private sector and business, and on the civil service itself. "Rules paralyse the public administration as well as business," he notes.

Administrative federalism, under which responsibilities are de-centralised and local administrations take a greater role, should help to improve efficiency and make the system more user-friendly.

Second, he seeks a lesser role for government which continues to be swollen, in spite of privatisations. Highly publicised sell-offs involving banks, the ENI state energy group and subsidiaries of the IRI state holding corporation have barely scraped the surface.

Probably few Italians know that spectacles and rope factories are among the industrial assets owned by the ministry of defence. A national dredging service is operated at great cost and with great inefficiency by the transport ministry.

"The public sector should concentrate on its core business. This means privatising and outsourcing," says Mr Bassanini. He sees no reason why Italy should have a national body for certifying the safety of lifts, an activity which, like motor car testing, could be better and less expensively done by the private sector.

The third objective is the simplification of procedures. Anyone familiar with the Italian bureaucracy, whether central or local, knows that the system's aim often seems to be the creation of difficulties and obstacles for users. The vexing bureaucratic perseverance tests to which businessmen wishing to build factories or expand existing operations are subject are one reason why Italy has been a loser in attracting inward investment.

Little wonder that Italian businessmen are enthusiastic supporters of Mr Bassanini's reforms. Mr Guidalberto Guidi, a director of the Confindustria industrialists' association, said that the minister's aims are completely in line with what business seeks. He described the reforms as courageous.

But Mr Guidi is less optimistic than Mr Bassanini about the number of laws and rules to which Italians are subject: he puts the figure at 612,000.

The annual cost to business of the time needed to satisfy bureaucracy's requirements amounts to L20.2 trillion (L20,200bn), according to Confindustria. An employee must be engaged for more than a day in order to register a lorry. Delays mean that permits for factory expansion can take up to 6 years to arrive. And the posts? "Business has given up on the postal service. Fax and private courier have taken over completely," says Mr Guidi.

Scathing about the posts, which he described as making work for the unemployed, Mr Guidi is also critical of the national employment service. "The employment offices are useless. Business would not notice if they were shut tomorrow."

Mr Bassanini may have these in mind when he says that 30,000 of Italy's 50,000 public bodies should be closed down.

Few have illusions that implementing the reforms will be easy, however. The bureaucratic mentality is an enormous obstacle. "Civil servants have difficulty in conceiving that new is better than old, that being free is better than being a state employee," says Mr Guidi.

The minister agrees. "The real problem is changing the culture. Traditional bureaucracy resists change. There will be enormous resistance," he says. While trade union leaders such as Mr Guglielmo Epifani of the left-wing CGIL organisation fully support Mr Bassanini's reforms, objections arise on the extreme right and left of the political spectrum.

The citizens of Rome should soon have another yardstick by which to measure whether change is really happening. They can already judge the civility of the public servants with whom they come into contact.

Earlier this month, Mr Bassanini's ministry published a bureaucrat's style guide. The minister will be able to claim that a milestone has been passed when the prose and terminology of official documents becomes easy to understand and members of the public no longer have to struggle with incomprehensible gobbledegook.

CULTURAL HERITAGE • by Jennifer Grego

Villa Borghese becomes symbol of commitment

After years of delays, the Rome museum of artistic treasures finally opens to the public

For nearly 14 years, the Villa Borghese has been an eyesore and a symbol of Italy's failure to protect and value its cultural heritage. Since March 1984, when the collapse of a section of frescoed ceiling in the entrance hall brought to light more serious static problems, this 17th century villa, housing perhaps the greatest non-royal art collection in the world, has been undergoing a snail's pace restoration, while all but closed to visitors.

However, Mr Walter Veltroni, the culture minister, has made full use of his position as deputy prime minister, and turned Villa Borghese into the symbol of the administration's commitment to the arts. He has achieved in 12 months what his predecessors failed to do in 14 years: opening it to the public – as promised – at the end of June.

The museum was created by Cardinal Scipione Borghese: the first aristocratic collector to recognise the genius of Gian-Lorenzo Bernini and Caravaggio, Scipione (born Cafarelli) was nephew to the Borghese Pope, Paul V – a Pope beaten only by Sixtus V (who was passionately interested in town-planning and who laid out the basis of the modern city) in his enthusiasm for embellishing Rome.

Admiring his nephew's lack of artistic prejudice, his energy and unerring good taste, Paul V made Scipione Cardinal and Papal Arts Minister at the age of 26 – taking the precaution of adopting him, and conferring on Scipione the name 'Borghese', so that the future collection would remain in the family.

Between 1600, when the villa was commissioned from the Flemish architect, Jan Van Santen, and the year of his death in 1633, Scipione made full use of Papal power to assemble a remarkable collection of contemporary masterpieces. He snapped up works such as Caravaggio's

On display in the Villa Borghese, created by Cardinal Scipione Borghese: Caravaggio's 'Boy with a basket of fruit'

Madonna dei Palafrenieri, considered by the cardinals at St Peter's unsuitable as a confraternity altarpiece.

He seized one of Domenichino's most famous works – by force – from the painter's Bologna studio. All else failing, Scipione was not above stealing a painting (Raphael's *Deposition*), and offering the furious owner a much inferior painting in exchange. Scipione gathered a handful of Titians – amongst them, arguably the best painting of the collection, *Sacred and Profane Love*, painted when the artist was only 25.

The collection has remained miraculously intact with losses often compensated by valuable gains. Between 1801 and 1809, Camillo Borghese, husband of Paulina Bonaparte, was forced by his brother-in-law, Napoleon, to part with more than 200 of his finest antique sculptures (now in the Louvre).

He consoled himself with the purchase of Correggio's *Danae*, and the commissioning from Canova of the reclining, semi-nude portrait-sculpture of his wife – one of the masterpieces of neo-classical sculpture.

The museum is operating a rigid system of 300 visitors every two hours (from 9am to 7pm and from 8.30am to 11.30pm, until September 14).

This programme has raised some questions whether the new regime understands who to manage the flow of visitors, even if it is operating the first museum system of advance booking.

But the restored villa shows the Italians are at last learning to adapt unobtrusive modern technology to difficult settings. The ticket-office, bar, computer information and other facilities are now in a new miniature version of the underground entrance to the Louvre, formed from part of the sky-scraper grottoes on which the building rests.

But this museum is not an isolated star, singled out for special attention. Mr Veltroni has linked Villa Borghese's opening with long-awaited improvements to other, less-visited museums bordering the park: opening the new and glamorously redecorated section in the Museo Nazionale di Arte Moderna, dedicated to Italian 19th works; the museum also has a splendid new terrace bar and restaurant.

At the Etruscan Museum in the Villa Giulia (built for entertaining on a grand scale by Pope Julius III), a fine new room has been opened, with a sophisticated forced ventilation system and excellent explanatory panels (something conspicuously lacking in this and most Italian state-run museums).

All three museums will eventually be linked by electric buses to ferry visitors from one museum to another across the park with a combined entry ticket. The zoological gardens (also part of the Borghese estate) are being renovated, and the Borghese aviary (between the zoo and the Villa Borghese) is being restored an transformed into a restaurant, at a cost of L490m.

Mr Veltroni's future plans for Rome include the opening, on December 16, of the 15th Palazzo Altemps, near Piazza Navona, which houses the eponymous Cardinal's fine collection of classical sculpture, including the famous Ludovisi throne.

Important frescoes, including one by Benozzo Gozzoli, have come to light here during the 14-year-long restoration. The completion of the restoration work on Palazzo Massimo (long intended to hold the overflow from the Museum of Roman Art, the Terme di Diocleziano) should be announced within a few months.

By the year 2000, Mr Veltroni counts on a new 7,000 sq metres of "state-of-the-art" exhibition space within Palazzo Barberini, the national art museum. This has been made possible by dislodging the military authority which held on to palatial premises for an officers' club for 50 years, despite the efforts of previous governments to send them elsewhere.

Italy's half-open museums

	Number	%
Open	1,772	51.6
Closed	151	4.4
On request	1,012	29.4
Redecoration	219	6.4
Projected	71	2.1
Under Restoration	146	4.2
Other	66	1.9
Total	3,437	100.0

Source: Ministry of Culture

EDUCATION • by Jennifer Grego in Rome

Reforms are long overdue

Repeated government failures to improve the school system have demoralised Italy's 750,000 teachers

"The first duty of an intellectual," says Umberto Eco, semiotics professor at Bologna university, "is to shut up when he's not needed."

He and his kind "are useful only in the long term", he claims: their function is to change society "from the inside", and not merely comment on current phenomena – such as drug issues, juvenile delinquency or whatever. Prof. Eco forms part of a group of 40 sages called by the new education minister, Luigi Berlinguer, to decide on a new school curriculum.

No-one doubts such reform is needed. The last thorough-going reform of the entire range of schooling took place 70 years ago. And, although improvements have been made recently to the so-called *scuole elementare* (from six to 11 years), the proscribed curriculum for history and philosophy in secondary school has become irrelevant to modern students. Teachers feel that their function has turned into that of an entertainer – desperately trying to hold the interest of intelligent students who spend hours on the internet, for example, but who cannot see the point of opening a book.

Mr Berlinguer's re-designing of the school system is nothing if not ambitious. Several important sections have been buried in bills introduced by cabinet colleagues, in the hope of getting them through parliament without raising too much dust. His reforms centre on the syllabus, the duration of obligatory schooling, the status of private schools, the modernization of the *maturita* (A-levels) examination, and financial and programmatic autonomy for individual institutions.

The last question is the only one so far to have been settled by law: within the wide-ranging Bassanini law, named after the civil service reform minister, aimed at freeing regional institutions from state control. However, in the usual Italian fashion, the law cannot be implemented before detailed instructions for its application have been provided, which must be within one year.

Support comes from Ms Livia Turco, the minister for social affairs, who has promised to provide L800bn, spread over three years, to help Mr Berlinguer stretch obligatory schooling at both ends of the system – by providing support programmes for infants and adolescents.

Agreement in the cabinet on the broad outlines of social reform means that Mr Berlinguer's reforms stand a better chance of success than those of his predecessors. A typically Italian mystery, however, is why 30 years were required to rationalise the unnecessarily stressful *esame di maturita*, the secondary school leaving exam. The reform will allow students to be judged partly on course-work, in line with common European practice.

Italian education at present means state education. More than 90 per cent of all children within obligatory school age (still six to 14 years) attend state schools. The remainder mainly go to Catholic institutions with highly competitive educational standards.

The loosening of the government's tightly-held monopoly is broadly welcomed. It is, however, the most controversial part of Mr Berlinguer's grand plan. The draft law, allowing private schools to benefit from state funding, is before the cabinet, and still has to struggle through both houses.

Obligatory schooling is now to be lengthened by two years, to ten years: it will end at 15 years of age, rather than 14 (still below the European average of 16). This, too, is an issues which has been the subject of attempted reform for 20 years. In order to extend the school cycle to ten years, the last year of infant school (five to six years) will count as the first of primary schooling, which continues, divided on to three two-year cycles – up to 12 years.

Guidance

Students then go on automatically, without examination, to three years of secondary education which will offer a flexible syllabus with career guidance, the option of vocational training, plus credits obtainable for professional training outside the school.

Mr Berlinguer also hopes to include in his draft law on school cycles, approved by the cabinet last month, with incentives such as locally-based scholarships, linked to industry, and possible tax-deduction for families with children in full-time education.

The continued failure to reform has demoralised an admittedly top-heavy teaching profession, employing 750,000 people, with a ratio of 9.9 students per teacher in primary schools. The minister was forced to put out a decree last May, blocking the attempt by 65,000 teachers to benefit from early retirement before the pension rules are changed.

Students, too, are tending to abandon school as soon as possible, not only in the disadvantaged south (where they often succumb to the temptation to make quick money in illegal activities), but also in prosperous areas of the North-East, such as around Treviso. There, small industry is booming, and it is easy to find jobs where students can earn a great deal more than their teachers.

Average teacher earnings are around $30,000 a year – lower than the rest of Europe, beating only Greece, Sweden and Turkey. In neither area is there seen to be any connection between education and employment.

Nor, according to the Turin University economist, Domenico Siniscalco, does secondary school adequately prepare students for their first year at university. Apart from ignorance of economic theory, he finds students unable to quickly absorb new material, plus a totally inadequate knowledge of English, and not even able to express themselves clearly in their own language.

A recent comment by a leading educationalist says more could and should be done: curriculum reforms are needed – concentrating on a solid background in economics and languages; there also needs to be a new emphasis on world history, rather than just Italian history - together with closer scrutiny of general teaching abilities, even willingness to introduce more foreign teachers.

Jobless by education level (%)

	Primary	Secondary	Tertiary (non-university)	Tertiary (university)	Total
US	17.2	7.8	4.7	3.1	7.4
Australia	13.2	8.2	–	5.4	9.6
Austria	5.4	2.9	0.7	4.6	3.4
Belgium	18.5	11.1	4.6	8.7	11.3
France	28.9	16.0	[illegible]	[illegible]	[illegible]
Germany	18.1	8.6	5.6	5.8	8.7
Italy	15.9	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	10.0	5.4	–	7.4	8.8
UK	24.2	10.7	[illegible]	[illegible]	10.3
Spain	33.4	28.3	26.7	32.5	31.4

Source: OECD

REGIONAL FOCUS: SICILY • by Robert Graham

Provenzano enhances planning in Palermo

The coalition leader aims for a shake-up of constitutional powers giving more authority to the regional government

At least something is changing in the governance of Sicily: in the baroque palace in Palermo, housing the Sicilian regional government, the president's appointments are kept punctually. Gone is the air of permanent confusion and with it, too, the traditional mass of courtiers milling in the president's ante-chamber exchanging idle gossip.

After a year in office, Prof Giuseppe Provenzano – a business academic recruited into politics to head a centre-right coalition to govern Sicily – has begun to impose a little order and planning. Not before time, since Sicily has the dubious distinction of possessing the most disastrous post-war record of regional government in Italy. Indeed, incompetent government, rather than lack of resources, helps explain why Sicily has a per capita GDP equivalent to 55 per cent of that in central and northern Italy.

One of the many legacies of the new regional administration was the virtual inability of the region to activate EU funds already earmarked. A recent study showed it took 695 working days to put in place the necessary documents and signatures to obtain EU regional financing.

"Last September, we were three years late in spending our EU funds: since then, we have gone from zero to 14 per cent, and by the end of the year will have drawn on 25 per cent of the available funds," says Prof Provenzano.

In part, this has been achieved by shifting the emphasis away from large complex infrastructure items and re-financing existing projects. The regional government has also moved from seeking funds for long-term to shorter-term projects.

Funds will also be diverted to help small businesses already aided by central government legislation. In all, some L390bn has been drawn down. But the Sicilian bureaucracy remains weak and too many dossiers are simply returned by Brussels because of inadequate preparation.

The plight of unused EU funds, which risk being withdrawn at the end of the year, is emblematic of what has to be overcome to stimulate economic development. Sicily obtained a special autonomous status in 1946, including a regional parliament and the right to retain all income and corporate taxes generated in the region. Instead of using this privilege to be financially independent of Rome, it has relied on central government and EU transfers to cover almost a quarter of spending needs.

The region's annual budget of L27,000bn is large compared to to the 5.1m population. But 80 per cent goes on current items, not least an overpaid and overblown 20,000-strong bureaucracy.

Resources

This has encouraged a "culture of dependency" which has done little to establish a manufacturing base to make use of the island's resources and strategic location in the Mediterranean. Industry only provides 19 per cent of added value compared the national average of 30 per cent, and the weight of agriculture at 7 per cent is nearly double the average.

Given the huge vested interests (including the mafia) resisting any change, Mr Provenzano is surprisingly optimistic. He has two priorities – reform of the administration and a shake-up of the constitutional powers giving more authority to the regional government.

"People have begun to understand the administrative structure has to be leaner and more efficient with promotions related more to merit," he says.

"Secondly, government has to depend less upon the regional assembly – at the moment Sicily is governed by 90 people – 80 in the assembly and 10 in the regional. I want to see the president directly elected and a clearer distinction between the executive authority of the president and the legislative process of the assembly," he adds.

The opposition on the left are wary of placing so much power in the hands of one person, who may not be easily accountable. But they admit the decision-making process must be streamlined and the pervasive fatalism about Sicily's economic development needs to be overcome.

The biggest divide between Prof Provenzano and the opposition is over his recipe for stimulating the economy and tackling unemployment.

Officially, the jobless rate is almost 24 per cent of the workforce with much higher levels among first time job-seekers. The real level is considerably lower since a substantial number are employed without proper registration in the industrial (mainly textiles/apparel) and service sectors.

"Fortunately, there is this black labour market because it helps to keep our industry competitive," says Prof Provenzano. He believes wages and work conditions in Sicily have to be more flexible – and the costs lower – to attract investment.

Otherwise, Sicily cannot offset its poor infrastructure and high credit costs to develop export-orientated industries which have been the motor for job creation and growth in northern Italy during the past difficult three years.

He is pushing to create local unions, free from the dictates of the national confederations – a move anathema to the CGIL, the main confederation, but being considered by the smaller CSIL.

In tandem with this, Prof Provenzano wants to pull the regional government out of direct involvement in industrial ventures. Over the past three decades, these ventures have cost the region L4,500bn. Some of these, such as wine producers, will be privatised; others which have often been kept going in name only but pay-roll in tact, will be wound up. Much store is also being placed on rejuvenated local financial institutions headed by Banco di Sicilia whose balance sheets were undermined by politically motivated loans.

Optimism, however, has to be tempered by the reluctance of investors to take a risk in Sicily. Here the existence of the mafia remains a formidable constraint.

Over the past four years, the state has made big inroads by decapitating the key bosses running Cosa Nostra, the umbrella organisation of the Sicilian mafia. But the mafia has adopted new structures and still operates a formidable network of extortion and corruption.

One of the main reasons holding up the completion of the Palermo-Messina autostrada – a key road link with the mainland – has been the difficulty of finding contractors and sub-contractors free of the mafia and able to fend off the mafia.

Only this month, 20 persons were arrested for fiddling, to the benefit of the mafia, the L80bn contract for a new courts complex in Palermo. The plans for these buildings were drawn up in 1987, work was stalled in 1994 because of irregularities and might now be completed by the end of 1999.

THE STET/TELECOM ITALIA MERGER, INTERPRETED BY MARIO SCHIFANO.

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